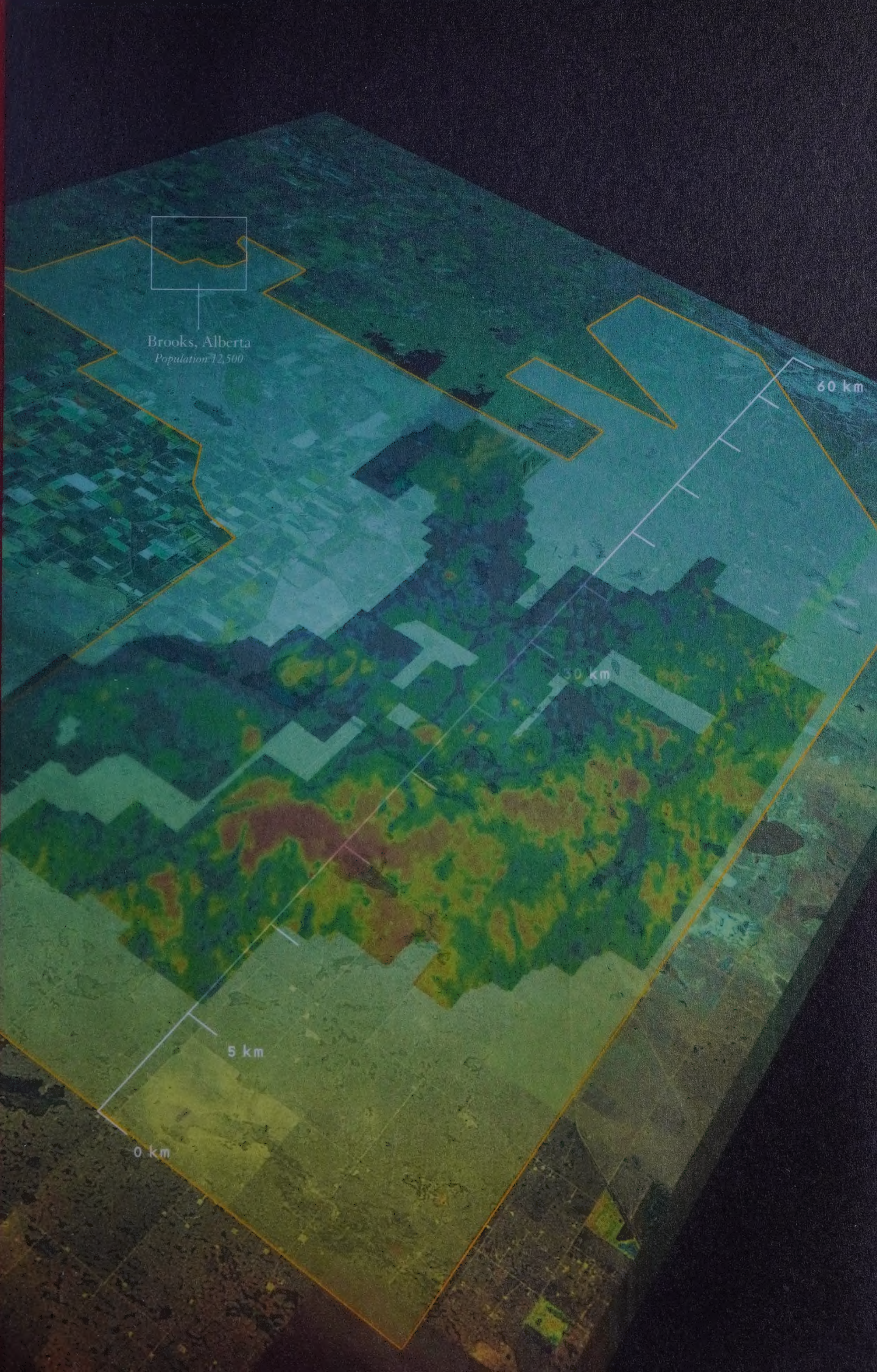
GENTRY RESOURCES LTD _ annual report 2006



_COVER STORY

Land is pivotal to growth.

An expansive land spread in a well-established hydrocarbon fairway is the most important growth tool for any company engaged in oil and gas exploration and production. It gives technical teams free rein in selecting prime targets, then rolling out full-scale development of their discoveries.

Last year we nearly doubled our land position in the Greater Princess Area. Gentry now controls over 457 sections of largely contiguous lands, which are mostly covered by 3D seismic. The sheer size of the land block has set the stage for unrestricted drilling for the next five years. **We are recognized as deep drilling experts in the Greater Princess Area, drilling faster and cheaper than our competitors.**

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_2006 HIGHLIGHTS ➤

Land at Princess	Unrestricted drilling
457	5
sections	years

Financial

Years ended December 31	2006	2005
Revenue	**$ 69,832,337**	$ 64,665,175
Funds flow	**30,444,948**	35,032,254
per share - basic	**0.79**	0.90
Net income	**2,757,210**	10,202,438
per share - basic	**0.07**	0.26
Net capital expenditures	**36,248,701**	53,854,150
Net debt	**47,311,997**	39,174,429
Weighted average of shares outstanding	**38,652,164**	38,755,860

Production

Oil and liquids *(bbls/d)*	**1,398**	1,330
Gas *(mcf/d)*	**16,658**	11,699
Barrel of oil equivalent *(boe/d)*	**4,175**	3,280

Average Prices

Oil and liquids *(bbls/d)*	**$ 57.86**	$ 52.71
Gas *(mcf/d)*	**6.63**	9.15
Barrel of oil equivalent *(boe/d)*	**45.83**	54.01

Reserves

Oil and liquids *(mbbls)*	**4,184**	4,321
Gas *(mmcf)*	**35,542**	38,064
Barrel of oil equivalent *(mboe)*	**10,109**	10,665

Note: Natural gas is converted to boe on the basis of 6 mcf =1 boe. All reserves (and calculations thereon) are based on a proved plus probable basis unless otherwise stated.

Average 2006 production

4,175

boe/d

2006 was a year of changing landscapes at Gentry and in Canada's oil and gas sector. At Gentry we nearly doubled our acreage in our prime asset with a land farm-in that is unprecedented for a company of our size. We now have 486 square miles of 3D seismic, an exceptionally large database for a small company. The massive land block under our control in the Greater Princess Area only hints at what we believe is a significant resource of oil and gas.

That is only one avenue for growth. Heading into 2007, we have a solid balance sheet and the appetite for strategic expansion. Both coincide with changes in our industry that have led to assets coming up for sale at more attractive prices. Once again we are looking to expand our horizons.

Hugh Ross, President & Chief Executive Officer

Delivering on Our Growth Strategy

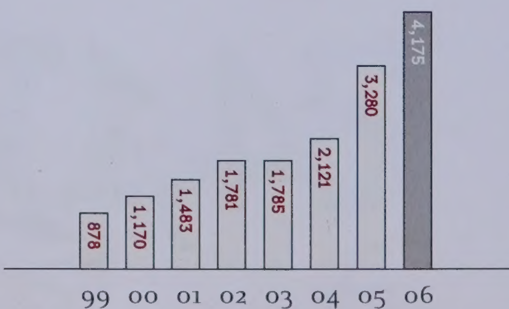
2006 was another year of financial growth at Gentry backed by excellent drilling success, and highlighted by two of the most attractive land expansion deals in our history. In June we announced two separate farm-ins with a major oil and gas producer which have given Gentry rights to deeper horizons in the Greater Princess Area, our main exploration and production area. We have since rolled out a drilling program which is confirming our geotechnical modeling. Based on the sheer magnitude of the farm-in lands and our existing acreage, Gentry anticipates unrestricted drilling for the next five years.

Princess 3D seismic coverage

486

square miles

Production growth (boe/d)



2006 was not without its challenges. Natural gas prices eroded significantly through the year, impacting our cash flow and postponing some of our planned natural gas activities. A weakening in oil prices also impacted cash flow, however, volume growth through the year allowed us to reach new production highs.

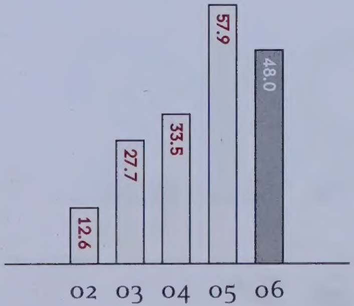
2006 Financial Highlights

- Gross revenues increased 8% to $69.8 million.
- Funds flow from operations was $30.4 million, or $0.79 on a per share basis.
- Net earnings were $2.8 million, and $0.07 on a per share basis.
- Gross capital expenditures totaled $43.3 million, with 40% dedicated to facility construction, enhancement and equipping.
- Year-end bank debt was $40.8 million after applying net proceeds of $7.0 million from the fourth quarter sales of assets producing 98 boe/d.
- Year-end net asset value per share discounted at 5% was $5.82 or $5.03 discounted at 10%.
- Gentry holds 10.7 million common shares of Stratic Energy Corporation, an international exploration and production company with a market value of $13.9 million.

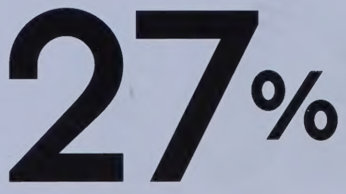
2006 Operational Highlights

- Production increased 27% to average 4,175 boe/d made up of 16,658 mcf/d of natural gas and 1,398 bbls/d of oil and liquids. Gentry's fourth quarter production averaged 4,335 boe/d.
- Our net drilling success was 91%, resulting in 18.2 net oil wells and 20.5 net gas wells.
- Proved reserves increased 13% to 6.7 mmboe. Proved reserves represent 66% of the Company's total reserves.
- On a proved boe basis, and before accounting for dispositions, we replaced 162% of our 2006 production.
- Proved and probable reserves were 10.1 mmboe in 2006.
- The net present value of our proved plus probable reserves, discounted at 5%, was $200.9 million and discounted at 10%, was $170.5 million.
- Our reserve life index is 6.4 years overall on a proved plus probable basis. Oil and liquids reserves are estimated at 7.9 years and natural gas reserves at 5.6 years.

Net wells drilled



Production growth



2005 to 2006

2006 Production

Average production increased 27% over 2005 to 4,175 boe/d with the fourth quarter averaging 4,335 boe/d, with all of the growth from internally-generated drilling. Even with this production growth, our capability was higher. Our gas production was reduced in the third quarter by longer than anticipated gas plant turnarounds by third party operators. Low gas prices also had an impact on our production forecast. A 10-well gas drilling program was postponed at our non-operated West Provost gas property, and facility upgrades were deferred at our Sedalia property.

Expanding Our Horizons

The significance of our two farm-ins is best viewed against our drilling success in the area. Gentry started in the Princess area in 2001 with a small farm-in and no production. Today, our internally-generated exploration and development have increased production to 2,500 boe/d. We have consistently achieved greater than 90% drilling success in Princess. With that performance, Gentry has earned a reputation as drilling experts in the area in two main horizons, the oil-bearing Pekisko and the gas-focused Nisku.

Under the farm-in agreements, we gained rights to the Pekisko over 230 sections, and rights to the Nisku in approximately 200 sections. With additional land acquisitions we now control 457 mostly contiguous sections. In addition, we purchased proprietary 3D seismic covering the vast majority of the farm-in lands, or about 224 square miles, which is a significant amount of data for a company of our size. We now own or have access to 3D coverage over most of our entire 457 sections.

Harvesting the Development Block Farm-in

The first agreement covers a Development Block comprising 26.5 sections that is a land bridge connecting our oil fields at Tilley and West Tide Lake, both of which are producing from the Pekisko formation. All of the land is within two miles of Gentry-owned and operated infrastructure.

Under the farm-in, we were required to drill seven commitment wells, all of which were identified on seismic, drilled and completed in less than 60 days. As an indication of the resource potential of the block, we have drilled and cased 11 wells to date, and plan to drill in excess of 40 more wells, both development and exploration,

Of the total reserve base	Net drilling success
66%	91%
proved reserves	2006

over the next year. Late in 2006, we completed construction of a six-mile emulsion pipeline which links the eastern extremity of the block to our operated West Tide Lake battery. The facility's 10,000 bbls/d fluid capacity will allow us to continue to tie-in a significant number of our wells drilled in West Tide Lake.

Major Oil Discovery on Exploration Block Farm-in

The second agreement covers an Exploration Block comprising 203 sections. The block is strategically important as it is on trend with Pekisko structures identified on 3D seismic on our large acreage holdings at Bantry located immediately west.

The first of 13 initial commitment wells was a significant oil discovery, seven miles south of our existing Pekisko fairway at West Tide Lake. The 13 wells are committed to be drilled by late August, with four drilled to date. Each well will earn Gentry six sections, with rolling options to acquire rights to the remaining lands. We expect to have completed our earning of the Exploration Block by early 2009.

Managing Our Growth

We recognize that opportunity does not necessarily translate into profitability. We are cognizant that exploration must go hand-in-hand with facilities – and both must be managed while controlling costs. Our approach on the Exploration Block is to select targets to not only complete our commitments, but that are lower risk prospects to allow for the sizing of production facilities, or easy tie-in to existing Gentry-owned or third party infrastructure. Our per unit operating costs in 2006 were $10.44/boe, up from $9.93/boe in 2005 due to rising field costs associated with the high level of industry activity. Over the next several years, Gentry will capitalize and benefit from the past two years of construction and investment in Gentry-owned facilities. This investment will accommodate production from future drilling and optimization plus help control our operating costs.

Other Areas of Activity

Greater Princess is our focus for both exploration and production growth over the next several years. Other gas producing properties, such as Gentry-operated Sedalia and the non-operated Viking unit at West Provost, continue to perform well, however, low gas prices during the year curtailed drilling programs for the short term. At Whitecourt, a large area with a number of exploration-focused non-operated properties, we have maintained some minor drilling.

2006 drilling	2006 drilling
20.5	**18.2**
net gas wells	net oil wells

Non-operated Properties

As a junior oil and gas company, Gentry has always had a unique portfolio of non-operated properties. These consist of long-life assets held at small working interests with very stable production, which have provided a solid base of cash flow for re-investment in higher-reward drilling. In 2006 we were able to add to that competitive advantage by selling 98 boe/d from several properties at a significant premium to current market prices. We will continue to evaluate opportunities to monetize these assets if it benefits our growth strategy.

Opportunity in the Changing Industry Landscape

It was a volatile year for our industry. At the beginning of 2006, gas prices began to trend down, reaching a low in the third quarter. This reduced cash flow for producers and, in some cases, resulted in capital spending cutbacks. A more critical event occurred on October 31 when the federal government announced its intent to impose a tax on income trusts. Both these developments have shifted a number of elements in the oil and gas sector.

A fall in equity markets for the oil and gas sector has reduced the ability of industry to access capital, while gas price weakness has reduced cash flows across the sector. As with any shift in the industry, new windows of opportunity open up and we expect to see increasing rationalization and asset sales, and lower acquisition prices which had been very high for several years. At Gentry, we are closely watching the evolution in acquisition markets and opportunities for further expansion.

Outlook for Commodity Prices

Every discussion of commodity prices has to include the word 'volatility'. Looking out from this point, and assuming normal weather patterns, crude oil markets should remain strong. Lower prices last year strengthened the global demand picture, major supply growth is limited and there is continued geo-political risk in the Middle East.

Gas prices were soft due to warm weather early this winter but as temperatures dropped in late January, the short-term outlook has improved. We expect to see gas inventories more in line with supply later this year.

2007 planned drilling	2006 gross revenue
58	$70
net wells	million

2007 — Our Most Active Year Ever

Our revised 2007 capital budget is $45 million reflecting the wealth of opportunities across our land base. About 60% of our spending will be on drilling and completions in the most active drilling program in our history. Our main focus will be on the oil-prone Pekisko formation at our Greater Princess asset. We plan to drill approximately 60 wells (58 net) across our land spread; 42 locations (40 net) are close to existing facilities, while the remaining 18 wells (18 net) are within our Bantry block or are earning wells within the Exploration Block. The remaining 40% of our capital program is being dedicated to strategic land additions, construction of new facilities or enhancements to existing infrastructure, and seismic. Our 2007 capital program will be funded from cash flow and existing lines of credit.

As we enter 2007, Gentry has a strong balance sheet. The sale of minor non-operated assets in the fourth quarter generated net proceeds of $7.0 million which were applied to our line of credit. If gas prices continue to strengthen throughout the year, we envision pursuing further expansion while maintaining an aggressive drilling program.

In Closing

The Gentry team is made up of dedicated and talented professionals. I wish to personally acknowledge the efforts of everyone at Gentry; they have much to be proud of. I would also like to acknowledge our Board of Directors for their ongoing insight and guidance, and their commitment to high standards of corporate governance, which is discussed in full on page 34.

We are excited about Gentry's prospects over the next few years. We have a large inventory of prospects, and a dominant position in an expanse of acreage where we are recognized as drilling experts. Our competitive advantage also rests on the strength of our balance sheet which will enable Gentry to pursue new opportunities. In 2007, we are as committed as ever to delivering sustainable growth in our base of long-term oil and natural gas reserves.

Respectfully submitted,

Hugh G. Ross

President and
Chief Executive Officer

March 20, 2007

Proved reserves	Proved finding and development costs
6.7	$18.38
mmboe	per boe

Gentry pumpjack in the Princess area near Brooks, southeastern Alberta.

Give me land, lots of land
under starry skies above,
don't fence me in...

– Cole Porter

Greater Princess Area

257,000

net acres

Princess area 2007 exploration

40

net wells

Stand on the prairie at Princess, and opportunity extends as far as the eye can see.

With control of 457 sections (403 net), our land holdings cover an area roughly 36 miles (58 km) north to south, and 30 miles (48 km) east to west. The shallow horizons are well developed; the deeper rights on our farm-in acreage have not been a focus of exploration for 30 years. Yet on land just next door, our exploration team has proven to be experts at unleashing the hydrocarbon potential from those deeper reservoirs.

Left_Harley Kempthorne, Vice President, Engineering and Gord McKay, Chief Operating Officer on-site at Princess.

Above_Gentry's lands near the town of Brooks in southern Alberta.

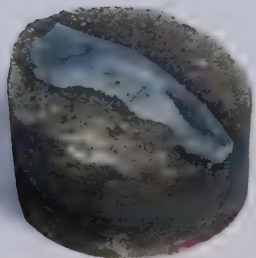
Right_Pumpjacks at Princess produce mostly from the Pekisko horizon at 950 to 1,050 metres.

Right_Rob Poole, Vice President, Operations (left) and Larry Buzan, Vice President, Land and Negotiations.

Below_Field Operator Mike Williams (left) and Terry Fink, Production Superintendent.

Far Right_ Pronghorn antelope graze Gentry's lands.

Above_Construction of flow lines at Princess.



Left_Drilling at Princess yielded this 10-centimetre fossil from a depth of over 1,000 metres in Mississippian–aged rocks approximately 350 million years old. The fossel captured the boney (chitinous) plate structure of a placoderm fish.

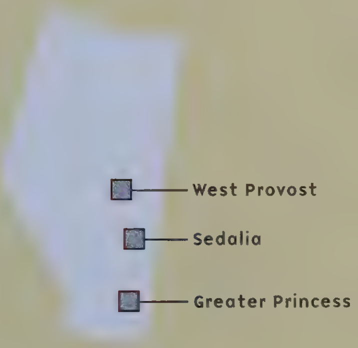
Right_Battery at Tilley at 11-22-19-12.

Greater Princess is the heart of our production base and growth strategy, representing 54% of 2006 production. We also operate over 100 sections of land at Sedalia, a gas-focused area accounting for 15% of production. We also continue to devote resources to our non-operated West Provost property, primarily a gas property with long-life reserves.

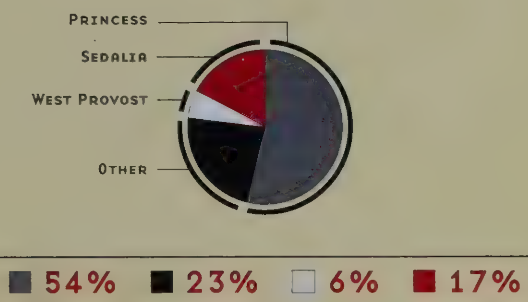
About 10% of Gentry's production flows from a base of other non-operated properties, predominately minor interests in some of Western Canada's highest quality producing units. These properties were acquired in the 1990s for their long reserve life, and they continue to exhibit very stable production and low decline rates. Cash flow from these properties is being leveraged into high-growth exploration and development.

Operational Strategies

- Continue to expand existing core areas where the exploration team has developed sound technical models and expertise;
- Maintain a corporate portfolio of low to medium risk plays in shallower horizons along with deeper, higher-risk higher-reward plays;
- Identify new areas with multi-zone growth potential which will support full-cycle exploration;
- Create a threshold of production where Gentry can construct, operate and control its own gathering and processing facilities;
- Operate exploration plays at a high working interest; and
- Remain opportunity-driven to capitalize on areas with larger reserves and high well deliverability, and in areas that tend to be less active and less competitive.



2006 production_percentage of corporate total



princess

457 sections

Greater Princess Area

Gentry is a recognized drilling expert in the Greater Princess Area. Since entering Princess with 55 sections and no production six years ago, the geotechnical team has opened up two exploration plays and taken production to 2,500 boe/d. Over the past three years, drilling success at Princess has exceeded 90%.

Drilling Targets

Primary Drilling Target

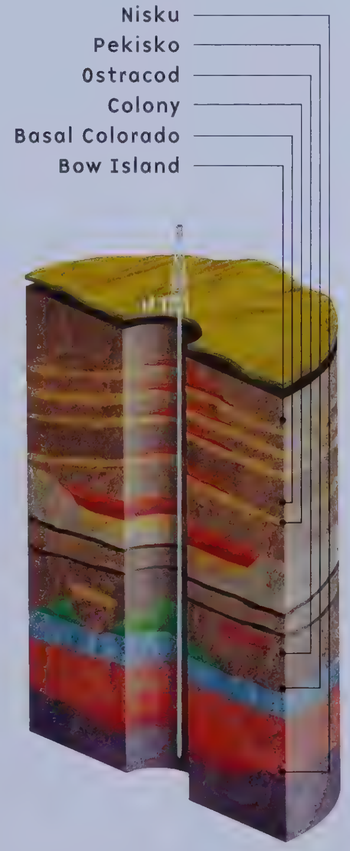
Gentry has fine-tuned its exploration models in the Pekisko formation, a Mississippian-aged horizon, which in the Princess area is mainly oil bearing. Pekisko oil is slightly sour, 27° API medium gravity crude. The Pekisko is found at approximately 950 to 1,050 metres. Most Pekisko wells have high initial production rates followed by declines and then steady, long life production.

Over 150 locations for Pekisko oil have been identified from the interpretation of 3D seismic data in the recently acquired Exploration Block, Development Block and the unexplored Bantry block. More than 100 are accessible to Gentry's existing facilities.

Secondary Target

Gentry's exploration has been successful in finding the geologically complex Nisku horizon. Located at approximately 1,250 metres, the Nisku produces slightly sour gas. It is a prized target for prolific production rates and large reserves.

Gentry's rights are in the oil-prone Pekisko and deeper formations in the Princess area. Nisku gas is another important target. In some parts of Princess, Gentry has rights to shallower horizons (Bow Island to Ostracod) yielding sweet gas targets.

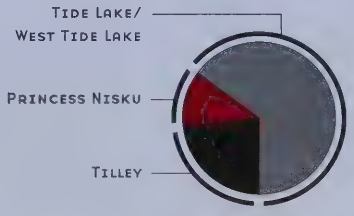


25 net wells drilled in 2006 at Princess

96%

drilling success

2006 production from Princess



65% 23% 12%

Princess Development Block

Gentry's farm-in to the Development Block last June was a strategic move to ramp up drilling in proximity to existing infrastructure. Seven commitment wells were drilled well before the commitment date, earning us the right to develop the Pekisko resource in this 26.5 section block. All of the lands are located within two miles of Gentry-operated facilities.

Eleven successful wells were drilled and cased in the first drilling phase on the block; nine have been tied-in to existing facilities and two are producing to single well batteries. A six-mile emulsion pipeline was constructed to link the eastern portion of the Development Block to the Gentry-operated West Tide Lake battery and compression facility. This pipeline now links the Company's activities in Tide Lake and West Tide Lake.

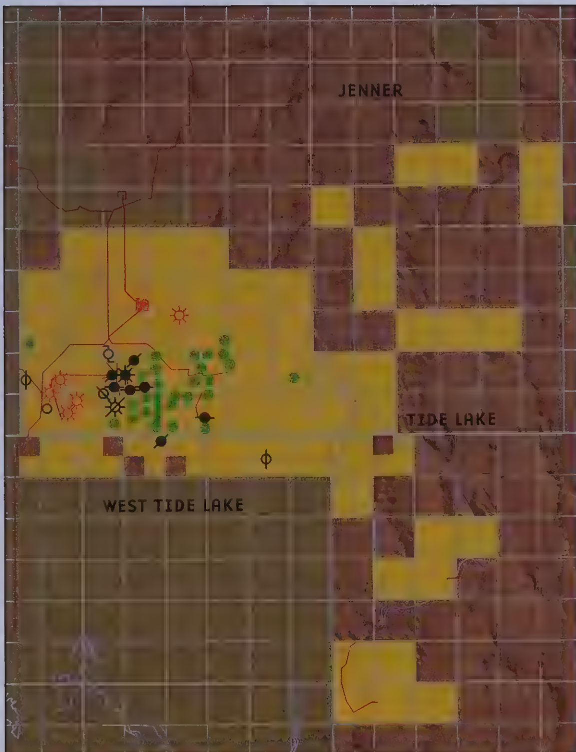
2007 Activity

- Now that the commitment has been earned, future activity will fall within the facility reach of Tilley, West Tide Lake and Tide Lake.

Seven commitment wells drilled

26.5

sections earned



Average Working Interest_76%

Land_80 sections

Operator_Gentry

Natural gas well
Oil well
D&A
Drilling location
Oil and gas well
Water injector
Gas plant

West Tide Lake/Tide Lake

West Tide Lake/Tide Lake is located in the northeast portion of the Greater Princess area, where the technical team continues to successfully apply its Pekisko oil exploration model. Since 2004, we have drilled 41 wells (37.6 net) and development is ongoing. In 2006 a net 21-well development drilling program resulted in 14.5 net oil wells and 3.6 net gas wells.

In addition to the Pekisko focus, Gentry has a sweet gas plant with capacity of 10 mmcf/d which is processing its sweet Cretaceous gas.

2007 Activity

- Gentry plans to drill more than 26 net wells, both development and exploration over the next year.

2007 planned drilling

26

net wells

Princess Exploration Block

The Exploration Block was acquired through the major farm-in last June and the first wells are replicating our Pekisko drilling success. Of the three exploratory wells drilled in 2006, two have been Pekisko discoveries. These wells were drilled based on modern 3D seismic acquired in conjunction with the farm-in and which cover the majority of the block.

Gentry's first commitment well was a significant Pekisko discovery. Drilled last November, the well encountered a pay column of 40 metres and has been on production since December at a restricted initial rate of 125 bbls/d. The discovery is located seven miles south of our existing West Tide Lake Pekisko oil fairway.

In December two additional exploratory wells were drilled 15 miles to the south to test another possible oil fairway, one of which yielded very encouraging results and is currently awaiting tie-in to a third party plant.

2007 Activity

- Four development wells and five exploration wells are budgeted for the Pekisko in the first half of 2007.
- By the end of 2007, Gentry anticipates drilling 15 wells to earn 90 of a possible 203 sections of land.
- All 13 of the initial earning wells under the farm-in agreement will be drilled by mid-August.

Average Working Interest_100%

Land_203 sections

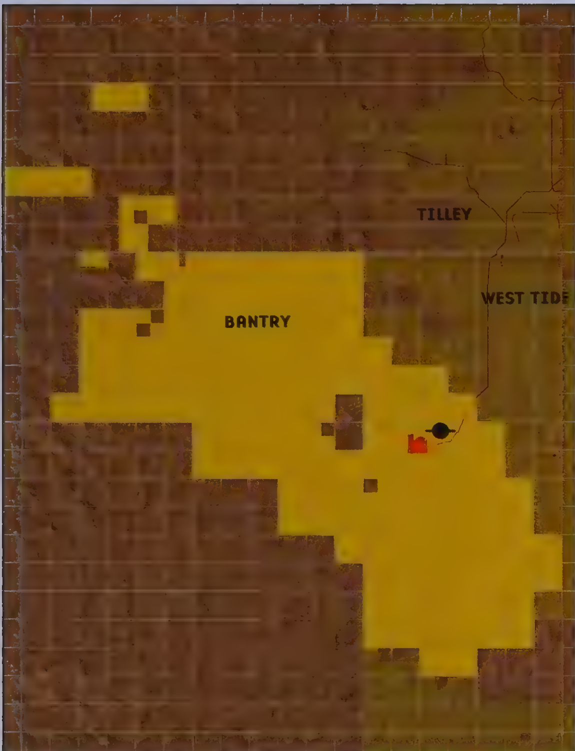
Operator_Gentry

Natural gas well — D&A — Water injector
Oil well — Drilling location — Gas plant
Oil and gas well

Exploration Block

15

drilling locations



Average Working Interest_87%

Land_124 sections

Operator_Gentry

Natural gas well
Oil well
D&A
Drilling location
Oil and gas well
Water injector
Gas plant

Bantry

Bantry was acquired in 2004 in what was a unique industry deal for Gentry. Gentry is one of the few companies with rights to "fee simple" lands, which means the rights have no expiry date. By contrast, rights to Crown land expire if acreage is not drilled within five years. Gentry's rights are in the Pekisko and deeper horizons over 124 contiguous sections of land. Extensive 3D seismic coverage was included in the acquisition, providing the tools to explore at Bantry when timing and resources are best suited to the play.

The eastern flank of the land block joins the newly-acquired Exploration Block and Gentry is moving forward with an exploration program over both properties. The primary target is the Pekisko, with numerous drilling targets already identified.

2007 Activity Highlights

- 4-7 wells are planned at Bantry in 2007.

"Fee simple" land

124

sections

Princess Exploration Block

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2007 Activity

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Average Working Interest_100%

Land_203 sections

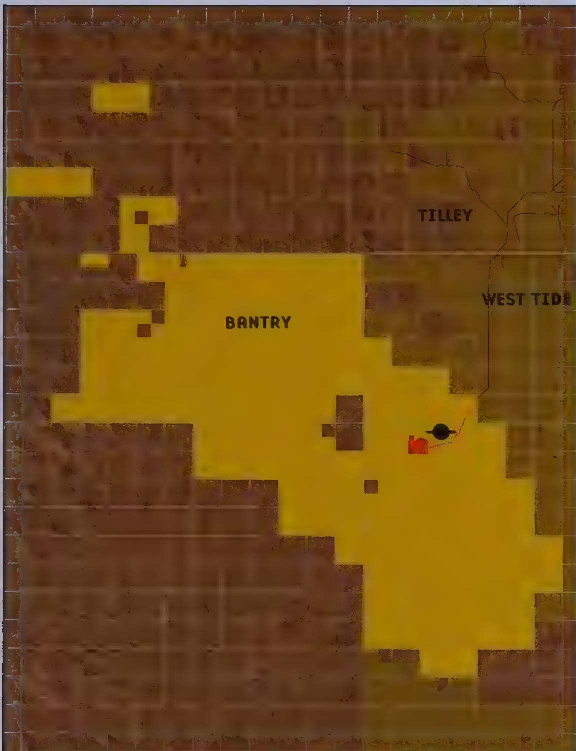
Operator_Gentry

Natural gas well
Oil well
D&A
Drilling location
Oil and gas well
Water injector
Gas plant

Exploration Block

15

drilling locations



Average Working Interest_87%
Land_124 sections
Operator_Gentry

Natural gas well · D&A · Water injector
Oil well · Drilling location · Gas plant
Oil and gas well

Bantry

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2007 Activity Highlights

- 4-7 wells are planned at Bantry in 2007.

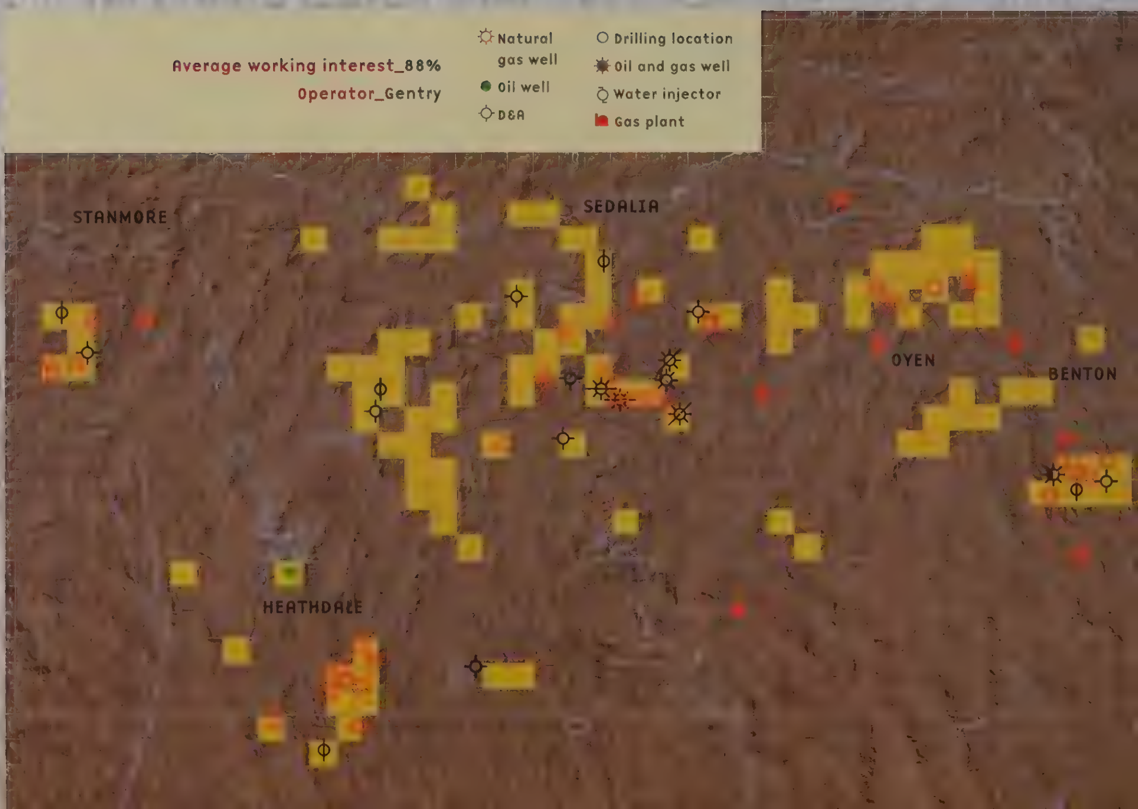
"Fee simple" land

124

sections

sedalia

112 sections



Sedalia

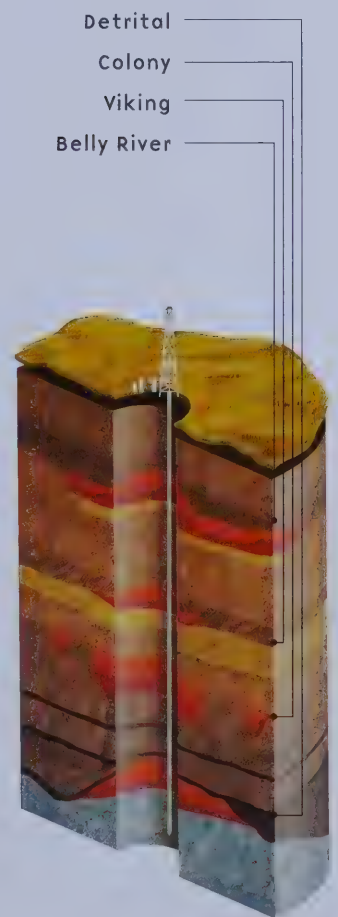
Sedalia has grown into Gentry's second largest producing area through successful exploration and development over the past four years. Gentry continues to discover gas reserves from multiple targets at depths between 300 metres to 1,100 metres. During the past year we drilled 18 wells (17.5 net) resulting in one oil well (0.7 net) and 13 gas wells (13.0 net). Land expansion also continued with selective additions to the sizeable land base through Crown land sales and farm-in opportunities.

In mid-2006 drilling activity was curtailed in light of softening gas prices and, in addition, facility upgrades were postponed.

2007 Activity

- In 2007, drilling will resume with 5-8 gas wells planned.

The Belly River to Detrital interval in Sedalia provides sweet gas targets at depths of 300 to 1,100 metres.

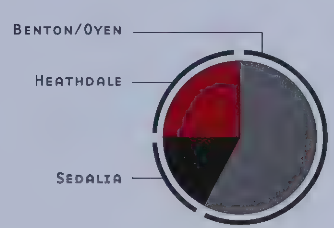


17 net wells drilled in 2006 at Sedalia

84%

drilling success

2006 production from Sedalia



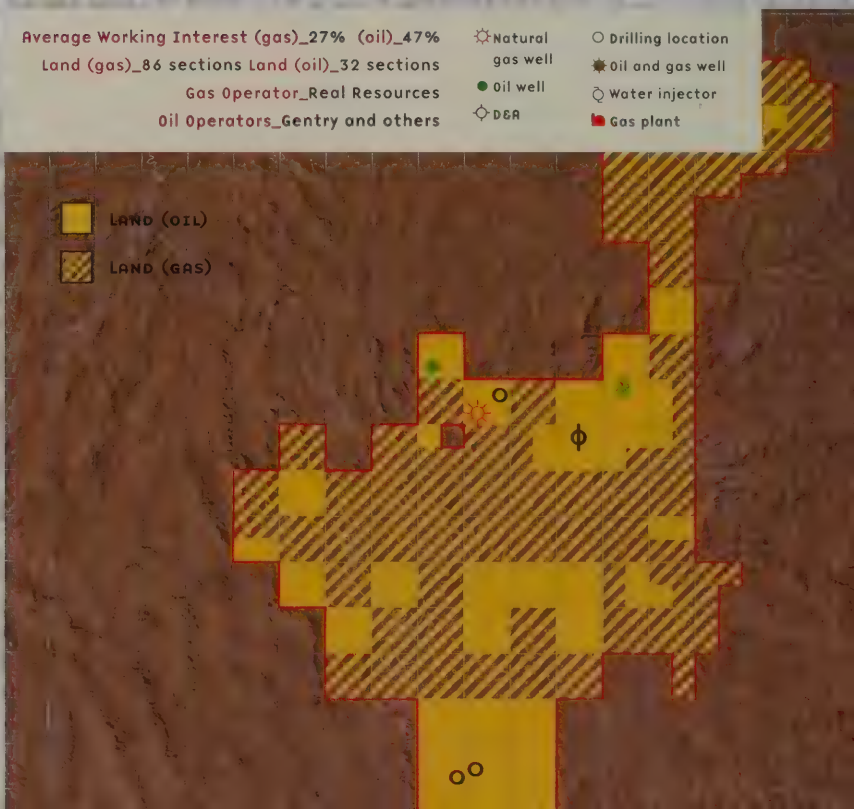
58% 17% 25%

west provost

108 sections

Average Working Interest (gas)_27% (oil)_47%
Land (gas)_86 sections Land (oil)_32 sections
Gas Operator_Real Resources
Oil Operators_Gentry and others

Natural gas well
Oil well
D&A
Drilling location
Oil and gas well
Water injector
Gas plant



West Provost

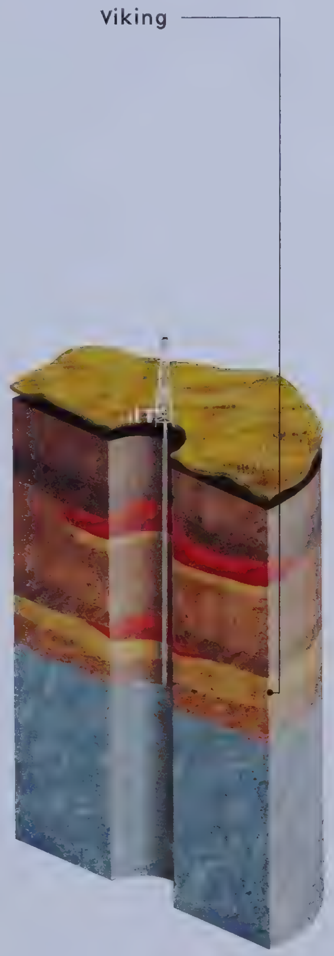
West Provost is a large, non-operated Viking gas unit with long life reserves and continued upside development potential. However, with the softening of gas prices during the year, a 10-well gas drilling program was postponed.

Gentry invested significant time and manpower in this property in 2005 and 2006 to assess the upside and prospectivity of all petroleum and natural gas rights owned in the area. As a result, new and innovative exploration concepts were formulated and will be tested with the drill bit during 2007.

2007 Activity

- 18 gas wells are planned for 2007 in the West Provost area.

Viking gas is the main drilling target in the West Provost Unit.

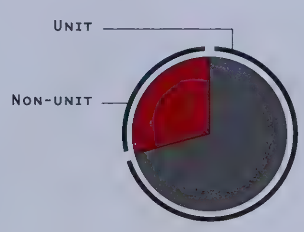


West Provost gas unit

13 years

Reserve life index (proved plus probable)

Unit and non-unit production



■ 71% ■ 29%

Land Holdings — The Lifeblood for Growth

2006 proved to be a turning point in Gentry's history for establishing a land foundation for exploration growth into the future. The concentrated undeveloped acreage position in Western Canada increased 14% from 2005 to over 179,000 net acres.

The year was highlighted by two farm-in agreements announced in June which have positioned Gentry with one of the highest potential land holdings in its peer group. The two farm-ins increased our land holdings in the Greater Princess Area to gross 457 sections (403 net sections), most of which are contiguous and held on a long-term basis.

The first farm-in, the Development Block, covers 26.5 sections (16,960 net acres) of development fairway and was earned by drilling seven commitment wells. The second agreement, known as the Exploration Block, encompasses approximately 203 sections (130,029 acres). Under this farm-in, Gentry has agreed to initially drill 13 exploration wells by the end of August 2007, with each well earning six sections of land. The farm-in includes rolling options to allow Gentry to earn the remaining lands with additional drilling.

From a land perspective, the two farm-ins have a number of characteristics beyond sheer size that make them attractive:

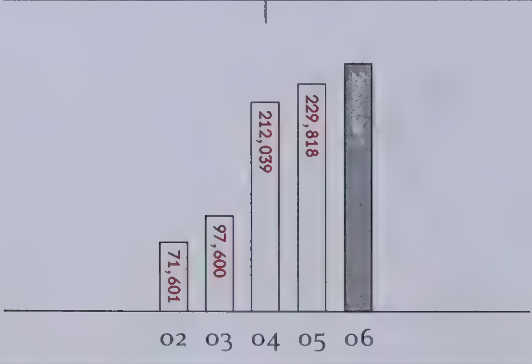
Contiguous
Every section adjoins the next making it possible to drill unrestricted.

Evaluated
A great majority of the acreage is covered by 3D.

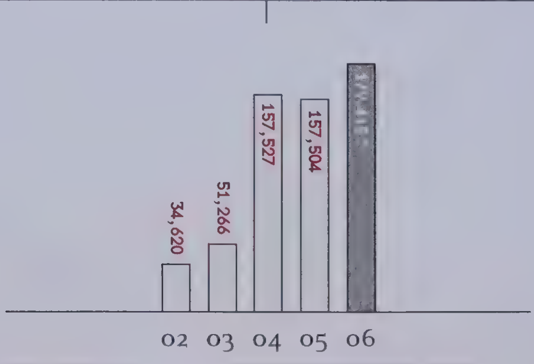
Proximity to Infrastructure
Some of the acreage offsets the Company-controlled facilities allowing for timely tie-ins.

"Fee Simple" Lands
At Bantry, Gentry holds mineral rights in the Pekisko and deeper horizons across 124 sections which are fee simple, meaning the mineral rights have no expiry date.

Western Canada net acreage
*Access to under agreement



Western Canada net undeveloped acreage
*Access to under agreement



Land Strategy — Tested and True

With an intense competitive environment for undeveloped lands, the strategy is to acquire acreage at a reasonable cost, while ensuring land resources are always available for the technical teams to expand drilling programs. A second focus is to ensure control of core areas by maintaining high working interests, or increasing those interests, with the goal of dominating all of our plays. The main components of Gentry's land strategy include:

- Maintain a high working interest;
- Operate exploration programs to control capital expenditures, timing of drilling, infrastructure and marketing activities;
- Add land within and near core areas for expansion;
- Select areas with multiple-zone potential that will support full-cycle exploration;
- Maintain lands to ensure a balance between low, medium and higher risk plays; and
- Identify new potential core areas emphasizing Gentry's technical expertise.

Western Canada Land Holdings

	2006 Gross	2005 Gross	% change	**2006 Net**	2005 Net	% change
Developed	**122,182**	167,918	(27)	**71,069**	72,314	(2)
Undeveloped	**347,082**	235,878	47	**179,415**	157,504	14
Total	**469,264**	403,796	16	**250,424**	229,818	9

Total Land Holdings

	2006 Gross	2005 Gross	% change	**2006 Net**	2005 Net	% change
Alberta	**454,127**	341,604	33	**244,491**	229,818	11
Saskatchewan	**14,977**	62,192	(76)	**5,833**	8,699	(33)
Manitoba	**160**	–	n/a	**160**	–	n/a
Western Canada Total	**469,264**	403,796	16	**250,484**	229,868	9
Quebec	**376,920**	376,920	–	**37,692**	37,692	–
Total	**846,184**	780,716	8	**288,176**	267,510	8

Western Canada land holdings

179,415

net undeveloped acres

Overview of Reserves

Gentry's 2006 year-end reserves were evaluated for the first time by Sproule Associates Limited.

- Proved reserves at December 31, 2006 increased by 13% to 6.7 mmboe up from 6.0 mmboe recorded December 31, 2005. Proved reserves represent 66% of the Company's total reserves.
- Proved finding and development costs were $18.38/boe.
- Production replacement on a proved basis before dispositions, was 162% of 2006 production.
- Year end net asset value per share discounted at 5% was $5.82, or $5.03 discounted at 10%.
- Proved and probable finding and development costs over the past three years averaged $21.05/boe. Proved and probable finding and development costs for 2006 were $31.05/boe.

Forecast Prices

Product price forecasts used in the evaluation by Sproule Associates Limited are summarized below:

	WTI Oil *($US/bbl)*	Edmonton Lt Oil *($Cdn/bbl)*	Spot Natural Gas *($Cdn/mmbtu)*
2007	65.73	74.10	7.72
2008	68.82	77.62	8.59
2009	62.42	70.25	7.74
2010	58.37	65.56	7.55
2011	55.20	61.90	7.72
2012	56.31	63.15	7.85

Reserves Summary Table — Forecast Prices and Costs

Working Interest Reserves (1)

As at December 31	2006			2005 (2)	
	Oil & Liquids *(mbbls)*	**Gas** *(mmcf)*	**Oil Equiv.** *(mboe)*	Oil Equiv. *(mboe)*	Percent Change *(%)*
Proved					
Developed producing	**2,761**	**17,041**	**5,601**	5,306	6
Developed non-producing	**148**	**1,022**	**319**	560	(43)
Undeveloped	**115**	**4,030**	**787**	94	737
Total proved	**3,023**	**22,093**	**6,706**	5,958	13
Probable					
Developed	**684**	**5,322**	**1,571**	3,087	(49)
Undeveloped	**477**	**8,126**	**1,831**	1,622	13
Total probable	**1,161**	**13,448**	**3,402**	4,707	(28)
Proved plus probable	**4,184**	**35,542**	**10,109**	10,665	(5)

(1) Due to rounding, some columns may not add precisely.
(2) 2005 reserves were evaluated by Martin & Brusset Associates.

Net Present Value of Reserves — Forecast Prices and Costs

Gentry's crude oil, natural gas liquids and natural gas reserves were evaluated by Sproule Associates Limited and are prior to any provision for income taxes, interest, debt service charges and general and administrative expenses. It should not be assumed that the discounted future net production revenues estimated herein represent the fair market value of the reserves.

December 31, 2006 (1)(2)			Discounted at		
	NPV 0% *($000s)*	NPV 5% *($000s)*	NPV 10% *($000s)*	NPV 15% *($000s)*	NPV 20% *($000s)*
Proved					
Developed producing	149,229	123,354	108,123	97,574	89,609
Developed non-producing	8,172	6,734	5,728	4,991	4,432
Undeveloped	16,065	13,492	11,483	9,884	8,588
Total proved	173,466	143,580	125,333	112,449	102,630
Probable					
Developed	43,184	28,375	22,071	18,271	15,624
Undeveloped	37,481	28,920	23,059	18,855	15,722
Total probable	80,665	57,296	45,130	37,126	31,347
Total proved plus probable	254,131	200,875	170,463	149,575	133,977

(1) As required by NI 51-101, undiscounted well abandonment costs of $5.6 million for proved reserves and $6.1 million for proved plus probable reserves are included in the net present value determination.
(2) Due to rounding, some columns may not add precisely.

At a 10% discount, the proved producing reserves make up 63% of the proved plus probable value while total proved reserves account for 74% of the proved plus probable value.

Reserve Life Index

	Oil & liquids *(bbls/d)*	Gas *(mcf/d)*	Oil equiv. *(boe/d)*
Average fourth quarter			
2006 production	1,447	17,331	4,335
RLI proved (years)	5.7	3.5	4.2
RLI proved plus probable (years)	7.9	5.6	6.4

Production Replacement (1)

	Oil & liquids *(mbbls)*	Gas *(mmcf)*	Oil equiv. *(mboe)*
2006 production	510	6,080	1,524
Proved	170%	139%	149%
Proved plus probable	73%	59%	64%

(1) Calculated on a Company interest basis and after dispositions.

Hugh G. Ross, B.A.

Director, President and Chief Executive Officer

A Director of Gentry since December 1988, Mr. Ross earned his Bachelor of Arts degree in Political Science in 1980 from the University of Calgary and joined Gentry's predecessor company shortly after graduation. His extensive knowledge of the industry has been acquired over 20 years.

Michael Halvorson, B.Comm.

Director

Mr. Halvorson has been involved in various aspects of the securities industry since 1967. Since 1980, he has been the President of Halcorp Capital Ltd., a private corporation specializing in corporate finance and corporate development within the resource industry. Mr. Halvorson also serves as a Director for a number of natural resource companies. He has considerable industry contacts and investment expertise.

Walter O'Donoghue, Q.C.

Director

Mr. O'Donoghue is Counsel to the law firm of Bennett Jones LLP. He has extensive experience in corporate and commercial law. He formerly served as a Director of Telus Corporation, Gulf Canada Resources Ltd. and Canadian Oil Sands Limited. His legal expertise is complemented by considerable knowledge of the oil and gas industry.

Dean Prodan, B.A. Econ.

Director

Mr. Prodan has over 20 years of experience in Canadian oil and gas capital markets, including advising some of the largest pension and mutual funds in North America.
He is currently the portfolio manager for Canada Dominion Resource Limited partnerships. His previous experience includes being a founding shareholder and institutional broker at First Energy Capital Corp. Mr. Prodan serves as a Director for several public oil and gas companies.

A. Bruce Macdonald, B.Sc.

Director

A Director of Gentry since 1996, Mr. Macdonald holds a Bachelor of Science degree in Petroleum Engineering. His 40 plus years of experience in the oil and gas industry was gained in Canada, the United States and Australia.
Before joining Gentry's Board, he was Executive Vice-President with Andex Oil Co. Ltd. and its successor company, EOG Resources. Mr. Macdonald's extensive experience and practical knowledge of the oil and gas sector make him a valued member of Gentry's Board of Directors.

Hugh G. Ross, B.A.
Director, President and Chief Executive Officer
(See previous page for biography)

Ketan Panchmatia, B.Mgt., C.M.A.
Vice President, Finance and Chief Financial Officer

Mr. Panchmatia obtained his Bachelor of Management degree from the University of Lethbridge in 1988 and joined the national accounting firm of Deloitte & Touche, Chartered Accountants before becoming Controller of Gentry in 1990. Shortly thereafter, he was appointed to the position of Secretary/Treasurer of the Company. He earned his C.M.A. designation in 1992 and was appointed Chief Financial Officer in 1995.

R. Gordon McKay, B.E.S.
Chief Operating Officer

Mr. McKay holds a degree from the University of Waterloo, as well as memberships in the Society of Exploration Geophysicists and the Canadian Society of Petroleum Geologists. Prior to joining Gentry in 1993, Mr. McKay served as a geophysicist with a seismic processing firm, then as a senior geophysicist with Petro-Canada. He was appointed Chief Operating Officer in 2000.

Robert J. Poole, B.Sc., P.Eng
Vice President, Operations

Mr. Poole joined Gentry's team in 2001 and has over 26 years of diverse industry experience, gained mostly in a junior company environment. He brings a wealth of operational and evaluation engineering knowledge and most recently served as the Vice-President of Operations for BXL Energy. Mr. Poole graduated with a chemical engineering degree from Queen's University in Kingston, Ontario, and is a member of APEGGA and CIM.

Harley Kempthorne, B.Eng, M.Eng, M.B.A., P.Eng
Vice President, Engineering

Mr. Kempthorne holds a Masters Degree in Geotechnical Engineering from Carleton University and an MBA from the University of Calgary. He joined Gentry in late 2006 bringing extensive industry experience in reservoir development and acquisitions. His most recent role was with Petro-Canada where he was responsible for business development for its North American gas business.

Lawrence B. Buzan, B.Comm, P.Land
Vice President, Land and Negotiations

Mr. Buzan joined Gentry in March of 2005 from a major oil and gas exploration company. With 24 years as a Landman for several majors, he has extensive experience in negotiation and business strategy. He was instrumental in successfully negotiating several high profile projects in the Mackenzie Delta. Mr. Buzan holds a B.Comm from the University of Calgary and is an active member and volunteer with CAPL.

Corporate Governance

Gentry believes corporate governance is crucial to its success and to all of its business dealings, its reputation with shareholders and within the larger investment community. Both management and the Board are committed to high standards of corporate governance in all aspects of its operations, including regular and open communication with shareholders and full and transparent disclosure in financial reporting and its business transactions.
One measure of Gentry's commitment is its adherence to corporate governance guidelines set out by the Canadian Securities Administrators, which represent security exchanges across Canada.

Duties of the Board

The Board is responsible for stewardship of the Company and overseeing management. The Board has direct responsibility for such matters as strategic planning, assessing opportunities and risks of the business, and ensuring systems are in place to manage those risks. The Board approves annual operating and capital budgets and long-term debt parameters within which management is expected to operate. The Board is also responsible for succession planning.

The Board meets regularly to consider matters of a wide-ranging nature and to decide on issues which could have a major impact on the Company's operations. These matters include acquisitions and dispositions, financing decisions and material corporate matters.

Management operates with considerable autonomy in day-to-day decisions, however, specific responsibilities and expectations are set out by the Board. These include conducting business in a cost-effective manner and protecting and increasing the Company's asset base, all with the objective of increasing the underlying value of shareholders' investments.

Principles and Practices

In order to manage and evaluate corporate governance performance, the following are examples of principles and practices adopted by Gentry:

Board Composition

Election of Directors

Each year directors are elected by shareholders at the annual general meeting. The Board as a whole is responsible for nominating new directors with appropriate experience and skill sets.

Independence of Directors

To ensure non-partisan leadership, the Board is comprised of one management member and four outside directors, all of whom are independent. Four of Gentry's directors live in Calgary, Alberta and one director resides in Edmonton, Alberta.

Frequency of Board Meetings

The Board meets quarterly to assess financial and operational results and more frequently if circumstances dictate. However, there is regular contact between the directors and management which allows for open and timely dialogue and decision-making.

Independent Advice

All directors and committees, independently or as a whole, have the right to retain independent legal counsel or other professional advisors. The Board also has the right to meet without management or management-directors present.

Membership on Board Committees

Most directors serve on various committees. Each committee meets as required, and all directors are expected to attend each Board meeting or meeting of a committee on which they serve.

Board Committees

To discharge its responsibilities, the Board operates with four committees, all comprised of non-management directors.

Corporate Governance Committee

The Corporate Governance Committee ensures that the process of corporate governance is ingrained in the structure and functioning of the Board. The two non-management directors who make up the committee have a number of functions including reviewing the scope, duties, responsibilities and performance of the Board's committees. This committee also ensures that the Board is aware of current developments and legislation regarding corporate governance and the responsibilities of directors.

Audit and Risk Management Committee

The Board-appointed internal Audit and Risk Management Committee is responsible for overseeing Gentry's business practices and financial reporting. The committee is comprised of three non-management directors with considerable financial expertise. The committee meets with management to review the quarterly financial statements and directly with Gentry's external auditors to review the annual financial statements, both prior to presentation to the Board for approval.

Compensation and Human Resources Committee

The Compensation and Human Resources Committee is made up of two non-management directors who are charged with researching and recommending reasonable compensation for directors, management and employees. These recommendations are presented to the Board for review and approval.

Reserves Review Committee

The Reserves Review Committee is comprised of two non-management directors. This committee is responsible for reviewing the year-end reserve evaluation report prepared by independent engineers and, subject to this review, recommending its acceptance to the Board.

Environment, Health & Safety

Corporate governance encompasses Gentry's operations in the field and a commitment to high standards in all aspects of environment, health and safety (EH&S). As Gentry has grown in size and operates larger core areas and production levels, there is a greater emphasis on systems to ensure environmental protection and the safety of Gentry's field staff, its contractors and the public.

Crucial to this commitment is compliance with government regulations and industry standards. The Company has established policies and procedures regarding EH&S, provides training and support to employees in the field, and it is emphasized across all of the Company's operations. Prior to acquiring a property, Gentry conducts a thorough review to ensure that the asset has no significant safety or environmental liabilities. During the production, engineering and onstream phase, Gentry monitors operations to ensure minimal environmental impacts, and that safety is integrated into daily operations. In addition, the Company's non-operated properties are generally operated by large and well-respected companies within the industry, providing a measure of confidence in their own commitment to EH&S.

Teamwork at Gentry means working towards a common vision, a shared goal. Our mission is to maximize shareholder value through investment in our people, and through the disciplined and consistent application of proven strategies which are designed to achieve superior and sustainable growth in cash flow, earnings and net asset value on a per share basis.

Average industry experience	Hours spent volunteering
16	2,166
years	in 2006

1_Dean Stuart, *Exploration Geologist*
2_Greg Groten, *Senior Geophysicist*
3_Lindsay Terborg, *Administrative Assistant*
4_Jane Mollison, *Land Administrator*
5_Larry Buzan, *VP, Land and Negotiations*
6_Rob Poole, *VP, Operations*
7_Harley Kempthorne, *VP, Engineering*
8_Gord McKay, *Chief Operating Officer*
9_Jennifer Peters, *Operations / Production Technician*
10_Kevin Miller, *Controller*
11_Darlene Coffey, *Accounts Payable*
12_Hugh Ross, *President & CEO*
13_Ketan Panchmatia, *VP, Finance & CFO*
14_Connie Nischuk, *Corporate Administrator*
15_Rabin Debnath, *Staff Accountant*
16_Vanessa Brazeau, *Staff Accountant*
17_Carmen Custelcean, *Production & Revenue Accounting Analyst*
18_Ken Wilson, *Senior Operations Engineer*
19_Rosa Nguyen, *Production & Revenue Accounting Analyst*
20_Claudette Shaw, *Manager Production & Revenue Accounting*
21_Terry Fink, *Production Superintendent*
22_Bruce Penny, *Senior Geologist*
23_Glenn Cunningham, *Senior Explorationist*

The Gentry Team

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) should be read in conjunction with the Consolidated Financial Statements of the Company.

Reported production represents Gentry's ownership share before the deduction of royalties. Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas has been converted at a ratio of six thousand cubic feet to one boe. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Included in the MD&A are references to financial measures commonly used in the oil and gas industry such as funds flow from operations and operating netbacks. These measures have no standardized meaning, are not defined by Canadian generally accepted accounting principles (GAAP), and accordingly are referred to as non-GAAP measures. Gentry calculates funds flow from operations as cash provided by operating activities prior to changes in working capital, and operating netbacks as production revenue less royalties and production expenses. These terms are used by the Company to assess operating results between years and between peer companies. Gentry's reported amounts may not be comparable to similarly titled measures reported by other companies. These terms should not be considered an alternative to, or more meaningful than, cash provided by operating, investing, and financing activities or net income as determined by Canadian GAAP as an indicator of the Company's performance or liquidity.

Certain figures in the comparative financial statements and MD&A have been reclassified to conform with the current year's presentation.

Certain disclosure in this MD&A contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by Gentry at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Such risks and uncertainties include, but are not limited to, risks associated with operations, loss of market, regulatory matters, commodity prices, reserve estimates, reservoir performance, environmental concerns, industry competition, and the ability to access sufficient capital from internal and external sources.

Additional information relating to the Company, including the Company's Annual Information Form, can be found at www.sedar.com. This MD&A has been prepared as of March 20, 2007.

Selected Annual Information

($thousands, except per share amounts)	**2006**	2005	2004
Production revenue	**69,832**	64,665	31,717
Funds flow from operations	**30,445**	35,032	13,274
per share - basic	**0.79**	0.90	0.42
per share - diluted	**0.77**	0.86	0.40
Net income	**2,757**	10,202	3,402
per share - basic	**0.07**	0.26	0.11
per share - diluted	**0.07**	0.25	0.10
Total assets	**141,826**	132,067	95,514
Long-term financial liabilities	**17,498**	15,370	9,772

Production and Pricing

The majority of Gentry's operations in 2006 were focused in Alberta. Activities were primarily directed in the Greater Princess Area (Princess) of southern Alberta where the Company was able to pursue both medium gravity crude as well as natural gas production. Sedalia, another core area in southeastern Alberta, provided additional growth in gas production.

As a result of the growth in Alberta, the Company's production in Saskatchewan, which contributed 12% of volumes in 2005, accounted for only 9% in 2006. Generally speaking, the Company's non-operated, long-life unitized interests in Saskatchewan are steady producers which have the focused attention of the operators managing their performance.

As the Company moves through 2007, gains in gas production are slated to come from Princess and Sedalia, while the driving force behind increased oil production will be Princess.

Oil & liquids	Revenue *($thousands)*	Volume *(bbls/d)*	Price *($/bbl)*
2006	**29,532**	**1,398**	**57.86**
2005	25,589	1,330	52.71
2004	13,525	862	42.88

Natural gas	Revenue *($thousands)*	Volume *(mcf/d)*	Price *($/mcf)*
2006	**40,301**	**16,658**	**6.63**
2005	39,076	11,699	9.15
2004	18,192	7,555	6.58

Boe	Revenue *($thousands)*	Volume *(boe/d)*	Price *($/boe)*
2006	**69,832**	**4,175**	**45.83**
2005	64,665	3,280	54.01
2004	31,717	2,121	40.86

Gross production revenue increased 8% in 2006 to $69.83 million from $64.67 million a year ago. The change in revenue was attributable to an additional $17.87 million from increased sales volumes, partially offset by a loss of $12.71 million from reduced commodity prices.

Gentry's natural gas sales rose 42% to 16,658 mcf/d from 11,699 mcf/d in 2005. This increase contributed $16.56 million to the change in revenue, while the 5% increase in crude oil and liquid sales to 1,398 bbls/d increased revenue by $1.31 million.

The change in gas pricing to $6.63/mcf from $9.15/mcf had the opposite effect on revenue, reducing it by $15.34 million. This was only partially offset by the additional $2.63 million realized from the increase in oil and liquids pricing to $57.86/bbl from $52.71/bbl a year ago.

Gentry has not entered into any forward contracts for the sale of commodities since 2001 and none are in place for 2007.

Royalties

Gentry's royalties, net of Alberta Royalty Tax Credit (ARTC), increased to $17.13 million from $11.87 million in 2005. Royalties were 24.5% of production on an oil, gas and boe basis in 2006. In 2005, royalties were 18.4% on a boe basis. Increased royalties and mineral taxes on certain lands at Princess are the primary reasons for the

overall increase in royalties. While royalty rates fluctuate depending on lease terms, royalty holidays, capital cost allowances, and custom processing deductions, Gentry anticipates the royalty rates to decrease marginally in 2007.

($thousands)	**2006**	2005	2004
Crown royalties	**7,221**	6,295	3,690
Freehold royalties	**7,095**	4,015	2,129
Overriding royalties	**3,187**	2,061	886
Gross royalties	**17,503**	12,371	6,705
ARTC	**(370)**	(500)	(440)
Net royalties	**17,133**	11,871	6,265
As a % of revenue	**24.5%**	18.4%	19.8%

Production Expenses

Production expenses increased to $15.91 million from $11.89 million in 2005. On a barrel of equivalent basis, costs increased 5% to $10.44/boe from $9.93/boe in 2005. The high level of industry activity and tight oilfield services markets resulted in a general increase in field operating costs. Also contributing to the rise in expenses were increased gas gathering and processing fees at third party facilities, and a significant workover program at the Company's non-operated Provost property. These factors offset the savings realized from the electrification of certain facilities at Princess and the ownership of fluid handling batteries, also in the Princess area.

General and Administrative Expenses

Gentry's general and administrative expenses remained relatively flat at $3.81 million in 2006, when compared to the $3.76 million in 2005. Staffing and compensation costs made up almost half of the 2006 expenses versus 43% in 2005. As expected, on a barrel of oil equivalent basis, general and administrative expenses decreased, falling 20% to $2.50/boe from $3.14/boe in 2005. Looking forward to 2007, moderate increases to gross administrative costs are expected, however, as production increases, it is anticipated that per unit costs will continue to decline.

($thousands)	**2006**	2005	2004
Gross expenses	**5,767**	5,616	4,715
Recoveries	**(490)**	(372)	(376)
Capitalized	**(1,469)**	(1,489)	(1,165)
Net expenses	**3,808**	3,755	3,174
Net expenses *($/boe)*	**2.50**	3.14	4.09

Stock-based Compensation

In 2006, Gentry's stock-based compensation expense was $1.84 million versus $644 thousand a year ago. In the most recent year, $1.73 million related to the value of vested stock options while the remaining $108 thousand was the value of Gentry's portion of the shares issued under the Company's Employee Share Ownership Plan (ESOP). This compares to the prior year figures of $557 thousand from stock options and $87 thousand from the ESOP. A greater number of higher valued options vesting in 2006 resulted in the higher charge.

Interest Expense

Gentry's interest expense increased to $2.09 million in 2006 from $1.43 million in 2005. The primary reason for the higher cost was the increase in interest rates to an average of 5.8% in 2006 from 4.4% in 2005. In addition, whereas Gentry began and ended 2005 with $17.22 million and $34.15 million in bank debt respectively, it ended 2006 with $40.75 million in bank debt as the Company had a higher utilization

factor on its line of credit to fund its capital expenditure programs.

Depletion, Depreciation and Accretion

These charges for 2006 were $25.48 million compared with $19.55 million in the previous year. This trend is expected to continue as the Company increases its asset base through its capital programs. On a barrel of oil equivalent basis, costs increased to $16.72/boe versus $16.33/boe in 2005.

Included in the above amounts is accretion expense, which is the amortization of the Company's asset retirement obligations. For 2006, this expense amounted to $204 thousand, or $0.13/boe, compared to $147 thousand, or $0.12/boe, a year ago.

The Company's depletion rate increased to 18.52% in 2006 from 16.59% in 2005 and is based on the ratio of annual production to proved reserves estimates. While production increased 27%, reserves used for the depletion calculation increased 14%, which accounted for the higher rate.

Income Taxes

Gentry was liable for $319 thousand in current taxes in 2006, which was a 40% decrease from the $535 thousand recorded in 2005. The biggest reason for the decrease was the elimination of the Large Corporations Tax in 2006. On a unit of production basis, current taxes were $0.21/boe versus $0.45/boe a year ago.

Future taxes decreased substantially to $496 thousand in 2006 from $4.80 million in 2005. On a unit of production basis, they equated to $0.33/boe in 2006 versus $4.00/boe in 2005. Future taxes were lower than anticipated due to a decline in the statutory tax rates and the greater increase in depletion charges as compared with the utilization of tax pools.

At the end of 2006, Gentry had $82.14 million of accumulated tax pools available for deduction against income in future years.

($thousands)	Available Balance	Maximum Annual Deduction *(%)*
Canadian oil and gas property expense	$ 25,701	10
Canadian development expense	16,576	30
Canadian exploration expense	6,908	100
Foreign exploration and development expense	193	10
Undepreciated capital cost	31,956	20-100
Cumulative eligible capital	55	7
Financing costs	752	20
Total	$ 82,141	–

Funds Flow and Net Income

In 2006, funds flow from operations was $30.44 million versus $35.03 million in 2005. The increase in gross production revenue was more than offset by the increased royalties and production expenses, resulting in the lower figure.

Net income fell to $2.76 million from $10.20 million in 2005. In assessing the change, reduced funds flow of $4.59 million, coupled with an additional $5.93 million in depletion, depreciation, and accretion charges and $1.19 million in stock-based compensation expenses, were more than enough to offset the $4.30 million reduction in future taxes.

On a per share basis, funds flow was $0.79 per share ($0.77 diluted) in 2006 compared to $0.90 ($0.86 diluted) in 2005. Net income was $0.07 per share ($0.07 diluted) versus $0.26 per share ($0.25 diluted) a year ago.

Operating Netbacks

($/boe)	2006	2005	2004
Selling price	**45.83**	54.01	40.86
Royalties *(net of ARTC)*	**(11.24)**	(9.91)	(8.07)
Production expenses	**(10.44)**	(9.93)	(9.37)
Operating netbacks	**24.15**	34.17	23.42

Capital Expenditures

Excluding acquisitions and divestures, capital expenditures decreased 7% to $42.85 million from $46.25 million in 2005. In 2006, the Company drilled or participated in 51 wells (48.0 net) with a success rate of 90% (91% net), compared to 88 gross wells (57.9 net) and a success rate of 94% (92% net) in 2005. The Company expended additional funds on facilities, equipping and tie-ins, primarily at Princess, which, going forward, should mean greater production and operating efficiencies.

On a net basis, capital expenditures were $36.25 million in 2006 versus $53.85 million in a year ago. In the fourth quarter of 2006, the Company disposed of approximately 98 boe/d of non-operated production for gross proceeds of $7.21 million. This was in contrast to the 2005 net acquisition figures when the Company acquired approximately 195 boe/d of production for gross proceeds of $8.08 million.

($thousands)	2006	2005	2004
Drilling and completions	**18,131**	26,050	11,773
Facilities and equipping	**17,414**	13,171	6,403
Land and seismic	**5,767**	5,509	7,360
Capitalized expenses	**1,469**	1,489	1,165
Other	**65**	28	129
Gross expenditures	**42,846**	46,247	26,830
Acquisitions, net	**(6,597)**	7,607	16,571
Net expenditures	**36,249**	53,854	43,401

Net Asset Value

At December 31, 2006, the Company's net asset value, based on a 10% discount factor, equated to $5.03 per share compared with $6.20 per share in 2005. While the value of undeveloped land and seismic increased by 62%, it could not compensate for the reduction in value of the year end reserves. The following is a summary of the Net Asset Value calculation, discounted at 10%:

($thousands, except per share amounts)	2006	2005	2004
Reserves	**170,463**	235,376	129,322
Undeveloped land and seismic (1)	**58,286**	35,945	37,101
Investments (2)	**13,896**	8,488	8,698
Net debt	**(47,312)**	(39,174)	(19,729)
Net asset value	**195,333**	240,635	155,392
Common shares outstanding	**38,811**	38,831	38,471
Net asset value per common share	**5.03**	6.20	4.04

(1) Internal estimate.
(2) Market value as at December 31.

Liquidity and Capital Resources

As was the case in 2005, Gentry did not access the equity markets in 2006 as its capital programs were financed from funds flow and its credit facility.

Gentry began the year with 38,830,799 common shares issued and outstanding. During 2006, the Company issued 551,102 shares on the exercise of incentive stock options ($1.55 per share); 41,529 shares pursuant to the Company's employee share purchase plan ($5.21 per share); and 612,300 shares were repurchased and cancelled pursuant to the Company's Normal Course Issuer Bid ($5.22 per share).

As a result of these changes, Gentry ended the year with 38,811,130 common shares issued and outstanding. As of the date of this MD&A, 38,849,110 common shares were outstanding and a further 3,129,167 shares were reserved for issuance pursuant to the exercise of outstanding incentive stock options (at an average price of $3.30 per share).

Gentry's year-end net debt was $47.31 million compared with $39.17 million at the end of 2005. Gentry's credit limit stands at $50 million and is reviewed semi-annually. The limit is currently being reviewed based upon the Company's December 31, 2006 Reserves Report.

Gentry owns 10.68 million common shares of Stratic Energy Corporation, a junior international exploration company. Gentry monitors its investments on a regular basis and as at December 31, 2006, the market value of its Stratic holdings was $13.89 million.

Contractual Obligations

In the normal course of business, Gentry has entered into the following contractual obligations and commitments:

($thousands)	2007	2008	2009	2010	2011	Total
Office lease	174	159	-	-	-	333
Firm service transportation	40	12	69	69	12	202
	214	171	69	69	12	535

Fourth Quarter Results

Gentry's financial and operating highlights from the fourth quarter of 2006, as compared with the fourth quarter of 2005, are summarized below:

Three months ended December 31	**2006**	2005	% change
Financial *($thousands)*			
Production revenue	**17,924**	22,165	(19)
Royalties *(net of ARTC)*	**5,380**	3,948	36
Production expenses	**5,552**	3,474	60
General & administrative	**1,413**	1,537	(8)
Interest	**607**	379	60
Current taxes	**63**	102	(38)
Asset retirement expenditures	**34**	74	(54)
Funds flow from operations	**4,875**	12,652	(61)
Depletion, depreciation and accretion	**6,659**	8,716	(24)
Future taxes *(recovery)*	**(1,487)**	1,170	(227)
Stock-based compensation	**668**	103	550
Net income *(loss)*	**(931)**	2,737	(134)
Capital expenditures, net	**3,603**	19,743	(82)
Production			
Oil & liquids *(bbls/d)*	**1,447**	1,486	(3)
Gas *(mcf/d)*	**17,331**	14,189	22
Barrels of oil equivalent *(boe/d)*	**4,335**	3,851	13
Pricing			
Oil & liquids *($/bbl)*	**50.59**	52.27	(3)
Natural gas *($/mcf)*	**7.02**	11.50	(39)
Barrel of oil equivalent *($/boe)*	**44.94**	62.56	(28)

In spite of the increased production volumes in the fourth quarter of 2006, production revenue was down due to the lower commodity pricing environment. Royalties increased as a result of higher rates and the recording of adjustments to prior quarters' calculation and accruals. A portion of the rise in production expenses was attributable to the increased production, but increased costs associated with third party facilities was also a contributing factor as was a general increase due to the tight oilfield services market. Based largely on the above reasons, funds flow from operations was down 61% over the comparative fourth quarter.

Depletion, depreciation and accretion decreased 24% in the fourth quarter of 2006. The relatively larger additions to proved reserves in the fourth quarter helped reduce the depletion rate, resulting in the lower figure. Stock-based compensation increased as the result of certain stock options becoming vested in the most recent quarter, while future income taxes fell significantly due to the reduced profitability of the Company as measured against the comparative quarter.

Deducting the depletion and stock-based compensation expenses from funds flow, and adding back the asset retirment expenditures and future income tax recovery, gives a net loss of $931 thousand in the fourth quarter of 2006. The largest contributing factor to this loss is the reduced funds flow from operations.

Net capital expenditures decreased significantly to $3.60 million from $19.74 million a year ago, as the Company disposed of 98 boe/d for gross proceeds of $7.21 million. Gentry also scaled back its capital programs in the most recent quarter as drilling and completions were $4.58 million versus $11.92 million the comparative quarter. The Company participated in the drilling of seven wells (6.5 net) in the fourth quarter of 2006 versus 29 wells (19.6 net) in the fourth quarter of 2005. Expenditures on facilities and equipping remained relatively flat at $5.34 million, with the bulk of that dedicated to pipelines, tie-ins and facilities at Princess.

Selected Quarterly Information

	2006				2005			
Three months ended	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31
Production								
bbls/d	**1,447**	**1,538**	**1,289**	**1,317**	1,486	1,291	1,295	1,246
mcf/d	**17,331**	**14,388**	**18,139**	**16,792**	14,189	11,177	10,512	10,889
boe/d	**4,335**	**3,936**	**4,312**	**4,116**	3,851	3,154	3,047	3,061
Financial								
Production revenue	**17,924**	**16,147**	**18,105**	**17,656**	22,165	17,685	12,832	11,984
Funds flow from operations	**4,875**	**7,085**	**9,481**	**9,004**	12,652	10,071	6,563	5,746
per share - basic	**0.13**	**0.18**	**0.25**	**0.23**	0.33	0.26	0.17	0.15
per share - diluted	**0.12**	**0.18**	**0.23**	**0.22**	0.31	0.25	0.16	0.14
Net income (loss)	**(931)**	**104**	**1,639**	**1,945**	2,737	4,336	1,843	1,286
per share - basic	**(0.02)**	**–**	**0.04**	**0.05**	0.07	0.11	0.05	0.03
per share - diluted	**(0.02)**	**–**	**0.04**	**0.05**	0.07	0.11	0.05	0.03

Production increases are typically stronger in the first and fourth quarters as wells drilled in previous quarters are tied in or begin to produce to single well batteries. The second quarter is typically characterized by wet weather and break-up conditions, making access to certain locations difficult. This can restrict exploration programs, field operations, and basic product transportation. Volumes in the third quarter of 2006 were directly impacted by downtime at three third party operating facilities which curtailed production at both Princess and Sedalia.

Generally speaking, production revenue and funds flow are largely a function of production volumes and commodity prices. In 2005, Gentry's average sales price rose from $43.50/boe in the first quarter to $62.56/boe in the fourth quarter, with the biggest jump coming in the third quarter. In 2006, although both crude oil and gas prices were quite volatile, most of the change in production revenue was volume based, as Gentry's average sales price of $45.83/boe did not vary by more than $2/boe in any one quarter. Funds flow from operations was lower than expected in the fourth quarter of 2006 due to increased production expenses and additional royalties recorded in the period.

In the fourth quarter of 2005, net income dropped relative to prior quarters due to increased depletion charges and higher future income taxes. The depletion charges increased as a result of a larger capital asset base and a higher depletion rate, while future income taxes went up as the Company utilized a greater proportion of its tax pools to reduce its taxable income and current taxes. In the fourth quarter of 2006, the net loss was largely attributable to the reduced funds flow from operations.

2007 Outlook

Gentry's Board of Directors has approved a revised 2007 capital budget of $45 million, approximately 60% of which is slated for drilling and completions. The remaining 40% will be spent on land, seismic, and facilities, including new construction and enhancements to existing infrastructure. This budget will be funded from funds flow and the existing line of credit.

Critical Accounting Estimates

Gentry is required to make certain assumptions and estimates in the application of GAAP that may have a significant impact on the financial results of the Company. The following is a discussion of the estimates that are critical to Gentry's consolidated financial statements.

Oil and Natural Gas Reserves and Full Cost Accounting

Gentry follows the full cost method of accounting for its oil and gas properties and equipment as prescribed by the Canadian Institute of Chartered Accountants (CICA). Accordingly, all costs associated with the acquisition, exploration and development of oil and natural gas reserves are capitalized and then depleted using the unit-of-production method based on estimated proved reserves. A ceiling test ensures the carrying value of a long-life asset can be recovered from its undiscounted future cash flows.

Reserve estimates can have a significant impact on net income and the carrying value of property and equipment as they are the key component in the calculation of depletion, depreciation and accretion as well as the ceiling test. Revisions to reserve estimates could result in a higher or lower depletion, depreciation and accretion expense being charged to net income while downward revisions to reserve estimates could result in a write down of property and equipment based on the ceiling test.

100% of Gentry's reserves are evaluated by the independent engineering firm of Sproule Associates Limited. This evaluation requires significant estimates to be made on various engineering data as well as future production rates, capital expenditures and commodity prices, all of which are subject to a number of uncertainties and various interpretations. The Company expects that over time its estimates of reserves will be revised, either upwards or downwards, based on future drilling, testing, production rates and commodity forecasts.

Asset Retirement Obligations

Gentry estimates the fair value of each asset retirement obligation. The obligation is based on current regulations, costs, technologies, and industry standards and is calculated using estimates for the timing of abandonment, inflation, and a credit-adjusted risk-free interest rate. The discounted obligation is initially capitalized as part of the carrying amount of the property and equipment and a corresponding liability is recognized. The increase in property and equipment is depleted and depreciated on the same basis as the remainder of the property and equipment. The liability is accreted against income, until it is settled or the property is sold, and is included as a component of depletion, depreciation and accretion expense.

Retirement obligations can have a material impact on the consolidated balance sheets and consolidated statements of income of the Company. Revisions to any or all of the aforementioned factors and estimates used in calculating the obligation may result in changes to the carrying value of property and equipment and the related liability, as well as the depletion, depreciation and accretion expense charged to net income. The Company expects that over time its estimate of its asset retirement obligations will be revised, either upwards or downwards, based on future regulations, costs, technologies, industry standards, timing of abandonment, and interest and inflation rates.

Stock-based Compensation

Gentry follows the fair value method of accounting for its stock-based compensation arrangements relating to stock options grants. The Company recognizes a compensation expense based upon the fair value of the options on the date of grant using the Black-Scholes option-pricing method and amortizes the expense over

the vesting period of the options. The Black-Scholes method requires estimates for the volatility of the Company's stock, a risk-free interest rate, an expected dividend rate, and the expected life of the options. Changes in these estimates will change the fair value of the option and affect the compensation expense recorded in the consolidated financial statements.

Other Accounting Estimates

Gentry follows the accrual method of accounting which requires the Company to incorporate certain estimates in its financial and operating results. This includes estimates of revenues, royalties, production expenses, administrative costs and capital items for specific reporting periods for which actual results have not yet been received. Gentry ensures that the personnel with the most knowledge of the relevant activities are responsible for the estimates, which are then reviewed for reasonableness. Past estimates are also compared to actual results in order to make more informed decisions when accruing future amounts.

New Accounting Standards

During the past and upcoming years, a number of changes to financial reporting requirements have been introduced. The following outlines the most notable changes and those which have, or may have, the greatest impact on Gentry.

Non-Monetary Transactions

The CICA introduced handbook section 3831 – "Non-Monetary Transactions" which became effective for interim and fiscal periods beginning on or after January 1, 2006. The standard requires that all non-monetary transactions be measured at fair values, rather than book values, if the transaction has commercial substance. A transaction will have commercial substance if it causes an identifiable and measurable change in the economic circumstance of the entity. For example, if a Company swaps a producing asset for undeveloped land, there would be an identifiable and measurable change in economic circumstances and the transaction would be measured at fair value. The impact of this standard cannot be measured until such time as Gentry completes a non-monetary transaction.

Financial Instruments – Recognition and Measurement

The CICA introduced handbook section 3855 – "Financial Instruments – Recognition and Measurement" which becomes effective for interim and annual periods beginning on or after October 1, 2006 (with early adoption permitted). The standard will require Gentry to classify its financial instruments as: held for trading, held to maturity, loans and receivables, or available for sale. Gentry's investments will be classified as available for sale and measured at fair value with gains and losses recognized in Comprehensive Income (see new standard below) until the asset is derecognized or becomes impaired. The Company will adopt this standard for its first quarterly reporting period beginning January 1, 2007.

Comprehensive Income

The CICA introduced handbook section 1530 – "Comprehensive Income" which becomes effective for interim and annual periods beginning on or after October 1, 2006 (with early adoption permitted). The standard will require Gentry to recognize gains and losses arising from the fluctuation of the share price of its investments and include these gains and losses as a separate component in the Income Statement with the accumulated gains and losses shown as a separate component of Shareholders' Equity. At December 31, 2006, Gentry followed the cost method of accounting for its investments whereby no gains or losses on investments

were recognized unless there had been a permanent decline in value. The impact of this new standard to the Company will be dependent on the changes in market value of Gentry's investments. The Company will adopt this standard for its first quarterly reporting period beginning January 1, 2007.

Hedging

The CICA issued handbook section 3865 – "Hedges" which becomes effective for interim and annual periods beginning on or after October 1, 2006 (with early adoption permitted). The new standard is optional, but must be applied if an entity chooses to use hedge accounting. Hedges must be designated as either fair value hedges, cash flow hedges, or hedges of a net investment in a self-sustaining foreign operation. For a fair value hedge, the gain or loss is recognized in net income in the period of change and the carrying amount of the hedged item is adjusted for the hedged risk. For other hedges, the effective portion of the hedging item's gain or loss is initially reported in Other Comprehensive Income and subsequently reclassified to net income when the hedged item affects net income. As Gentry had no hedges in place in 2006 and none are in place for 2007, these policy changes currently have no effect on the Company. Gentry has not yet determined if it will follow this optional standard.

Business Risks and Uncertainties

Gentry, like all companies in the oil and gas industry, operates in an environment subject to inherent risks. Gentry groups these risks into three main areas – operational, financial, and regulatory.

Operational Risks

Gentry's operational activities are focused on the Western Canadian Sedimentary Basin, a competitive environment with a number of companies exploring for hydrocarbons. The high level of activity has put pressure on the availability and pricing of supplies and materials as well as staff and field services. Other operational risks include weather delays, mechanical or technical difficulties, and exploration risks associated with finding economically viable hydrocarbon reserves. Gentry attempts to manage these risks by maintaining an inventory of certain critical equipment; conducting advance planning to manage its drilling programs in an efficient and cost effective manner; hiring experienced technical staff and personnel to conduct its exploration programs; and maintaining a broad base of interests in different areas of the Basin.

Gentry's field operations are also subject to health, safety and environmental risks. Gentry maintains a Health, Safety and Environmental Policy and an Emergency Response Plan which are updated bi-annually or as needed to comply with current legislation. Both are designed to protect the health and safety of all concerned persons in addition to respecting any environmental regulations. Gentry also maintains insurance covering property, drilling, pollution, and commercial general liability.

Financial Risks

Financial risks faced by the Company include fluctuations in commodity prices, US/Canadian foreign exchange rates, interest rates, the ability to access capital and/or debt markets, and credit risks associated with its joint venture partners and purchasers. While Gentry does not hedge its production, foreign exchange rates or interest rates,

it does attempt to mitigate overall financial risks by maintaining a debt to forward year's cash flow ratio of no more than 1:1, having a flexible capital program, and managing its reliance on joint venture partners.

Regulatory Risks

Gentry is subject to various policies and legislation governing the oil and gas industry. Although these policies are out of Gentry's direct control, Gentry is a member of the Canadian Association of Petroleum Producers, which, amongst other things, is the voice of the upstream oil and gas industry in Canada. Gentry operates in a manner that is in compliance with applicable regulations and industry standards and must react to comply with changes as they occur.

Disclosure Controls and Procedures

Gentry has designed such disclosure controls and procedures to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow for timely decisions regarding required disclosure. Based on their evaluation, the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that Gentry's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company is made known to them and that these controls and procedures were operating effectively as of December 31, 2006. It should be noted that while the evaluation provides a reasonable level of assurance that the disclosure controls and procedures are effective, it does not guarantee that they will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Control Over Financial Reporting

In accordance with Multilateral Instrument 52-109, Gentry has, under the supervision of its CEO and CFO, designed a process of internal control over financial reporting. The process was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP).

Based on the CEO and CFO's review of the design of internal control over financial reporting, a limitation in the control system has been identified. As a small organization, and similar to other small organizations, Gentry's staff and management is composed of a small number of key individuals such that it is not economically feasible to achieve a complete segregation of duties. As a result of this weakness, there is only reasonable, not absolute, assurance that a material misstatement would not be prevented or detected. Management and Audit Committee reviews are utilized to mitigate the risk of material misstatement in the financial reporting process. Additional accounting staff will be added as the Company grows and this is expected to remediate this issue.

It should be noted that while the design of internal control over financial reporting provides a reasonable level of assurance that a material misstatement would be prevented, it does not guarantee that it will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

To the Shareholders of Gentry Resources Ltd.

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Other financial information appearing throughout the report is presented on a basis consistent with the financial statements. Management has established procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced in a timely manner. The financial statements have been examined by external auditors who were appointed by the Company's shareholders and whose report is set forth herein. The Audit Committee of the Board of Directors has reviewed these financial statements with management and the external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Hugh G. Ross
President and Chief Executive Officer
March 20, 2007

Ketan Panchmatia
Chief Financial Officer
March 20, 2007

To the Shareholders of Gentry Resources Ltd.

We have audited the consolidated balance sheets of Gentry Resources Ltd. as at December 31, 2006 and 2005 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Calgary LLP

Chartered Accountants
Calgary, Alberta
March 20, 2007

Consolidated Balance Sheets

December 31, 2006 and 2005		2006		2005
Assets				
Current				
Cash and cash equivalents	$	**18,406**	$	13,090
Accounts receivable		**11,992,126**		14,819,088
Prepaid expenses		**580,361**		625,961
		12,590,893		15,458,139
Investments *(note 2[c])*		**1,809,583**		1,707,458
Property and equipment *(note 3)*		**127,425,551**		114,901,195
	$	**141,826,027**	$	132,066,792
Liabilities & Shareholders' Equity				
Current				
Accounts payable and accrued liabilities	$	**18,858,031**	$	20,179,163
Income taxes payable		**294,859**		303,405
Bank debt *(note 4)*		**40,750,000**		34,150,000
		59,902,890		54,632,568
Asset retirement obligations *(note 5)*		**5,104,300**		3,473,144
Future income taxes *(note 6[a])*		**12,393,282**		11,897,016
		77,400,472		70,002,728
Share capital *(note 7)*		**43,515,360**		42,906,253
Contributed surplus *(note 7[d])*		**2,335,783**		823,918
Retained earnings		**18,574,412**		18,333,893
		64,425,555		62,064,064
	$	**141,826,027**	$	132,066,792
Commitments *(note 10)*				

Please refer to the accompanying notes.

Approved by the board:

Michael Halvorson
Director

Dean Prodan
Director

Consolidated Statements of Income and Retained Earnings

For the years ended December 31, 2006 and 2005		2006		2005
Revenue				
Production	$	**69,832,337**	$	64,665,175
Less: royalties, net of Alberta Royalty Tax Credit		**(17,132,839)**		(11,870,924)
		52,699,498		52,794,251
Expenses				
Depletion, depreciation & accretion		**25,481,638**		19,550,137
Production		**15,908,052**		11,886,328
General & administrative		**3,808,274**		3,755,310
Interest on bank debt		**2,093,392**		1,425,161
Stock-based compensation *(note 7[b] and 7[d])*		**1,835,971**		643,882
		49,127,327		37,260,818
Income before income taxes		**3,572,171**		15,533,433
Income taxes *(note 6[b])*				
Current		**318,695**		534,757
Future		**496,266**		4,796,238
		814,961		5,330,995
Net Income		**2,757,210**		10,202,438
Retained earnings, beginning of year		**18,333,893**		9,048,384
Less: excess of cost of shares acquired over stated value *(note 7[c])*		**(2,516,691)**		(916,929)
Retained earnings, end of year	$	**18,574,412**	$	18,333,893
Net Income Per Share				
Basic *(note 8)*	$	**0.07**	$	0.26
Diluted *(note 8)*	$	**0.07**	$	0.25

Please refer to the accompanying notes.

Consolidated Statements of Cash Flows

For the years ended December 31, 2006 and 2005	2006	2005
Operating activities		
Net income	$ 2,757,210	$ 10,202,438
Adjustments for:		
Depletion, depreciation & accretion	25,481,638	19,550,137
Stock-based compensation	1,835,971	643,882
Future income taxes	496,266	4,796,238
Asset retirement expenditures	(126,137)	(160,441)
	30,444,948	35,032,254
Changes in non-cash working capital items	4,557,570	145,741
	35,002,518	35,177,995
Investing activities		
Capital expenditures	(43,283,284)	(53,854,150)
Dispositions of property and equipment	7,034,583	–
Acquisition of investments	(102,125)	–
Changes in non-cash working capital items	(3,119,841)	2,426,446
	(39,470,667)	(51,427,704)
Financing activities		
Proceeds from (repayments on) bank debt, net	6,600,000	16,930,000
Redemption of share capital	(3,195,388)	(1,163,098)
Proceeds on issuance of share capital, net	963,697	539,071
Changes in non-cash working capital items	105,156	(111,461)
	4,473,465	16,194,512
Increase (decrease) in cash	5,316	(55,197)
Cash and cash equivalents, beginning of year	13,090	68,287
Cash and cash equivalents, end of year	$ 18,406	$ 13,090
Supplemental cash flows disclosure:		
Interest paid	$ 2,093,392	$ 1,425,161
Income taxes paid	$ 327,241	$ 278,092

Please refer to the accompanying notes.

Notes to the Consolidated Financial Statements

1. Company Activities

The Company's activities are the exploration for and development of petroleum and natural gas properties in Canada.

2. Summary of Significant Accounting Policies

These financial statements have been prepared using accounting principles generally accepted in Canada which include:

a) Principles of Consolidation

On April 1, 2005, the Company amalgamated with it's wholly owned subsidiaries, Gentry Resources (Saskatchewan) Ltd. and Gentry Income Funds Inc.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Gentry Resources (West Africa) Inc., which is inactive and has no production operations.

b) Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit with banks and broker accounts.

c) Investments

The Company records its investment in Stratic Energy Corporation ("Stratic"), a corporation which was formerly related by virtue of common directors and officers, and its other investment using the cost method of accounting whereby the investments are initially recorded at cost. Earnings are recognized only to the extent received or receivable.

Where there has been a permanent or other than temporary decline in value, the investments are stated at estimated net realizable value.

d) Petroleum and Natural Gas Exploration and Development Expenditures

The Company follows the Canadian full cost method of accounting whereby all costs related to the exploration for and the development of petroleum and natural gas reserves are initially capitalized and accumulated in cost centres by country. Costs capitalized include land acquisition costs, geological and geophysical expenditures, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities and lease and well equipment. Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would significantly alter the related cost centre's rate of depletion and depreciation. A significant disposition is defined as causing a change of 20% or more in the annual depletion rate.

Costs capitalized are depleted and depreciated using the unit-of-production method by cost centre based upon gross proved petroleum and natural gas reserves as determined by independent engineers. For purposes of the calculation, petroleum and natural gas reserves are converted to a common unit of measure on the basis of their relative energy content, whereby one barrel of oil is equivalent to six thousand cubic feet of natural gas.

The costs of significant unproved properties are excluded from the depletion and depreciation base until it is determined whether proved reserves are attributable to the properties, or impairment has occurred.

The Company tests impairment against undiscounted future net revenues from proved reserves using expected future product prices and costs. Impairment is recognized when the carrying amount is greater than the undiscounted future net revenues, at which time assets are written down to the fair value of proved and probable reserves plus the cost of unproved properties, net of impairment allowances. Fair value is determined using expected future product prices and costs, and amounts are discounted using a risk-free interest rate.

e) Depreciation

Other assets are depreciated using the declining balance method at annual rates of 20% to 100%.

f) Income Taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at the carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the year of realization.

g) Asset Retirement Obligations

The estimated fair value of each asset retirement obligation is recorded in the period a well or related asset is drilled, constructed or acquired. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's credit-adjusted risk-free interest rate. The obligation is reviewed regularly by Company management based upon current regulations, costs, technologies and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related oil and natural gas properties and a corresponding liability is recognized. The increase in oil and natural gas properties is depleted and depreciated on the same basis as the remainder of the oil and natural gas properties. The liability is accreted against income until it is settled or the property is sold and is included as a component of depletion, depreciation and accretion expense. Actual restoration expenditures are charged to the accumulated obligation as incurred.

h) Flow-through Shares

The Company, from time to time, issues flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, share capital is reduced and a future tax liability is recorded equal to the estimated amount of future income taxes payable by the Company as a result of the renunciations. This reduction to share capital and increase in future tax liability is recognized when the expenditures are renounced.

i) Stock-based Compensation

The Company has a stock option plan as described in Note 7(a).

Stock-based compensation expense is recorded for all options granted on or after January 1, 2003, with a corresponding increase recorded to contributed surplus. The compensation expense is recognized over the vesting period. The fair value of options granted are estimated at the date of grant using the Black-Scholes valuation model. Upon the exercise of stock options, consideration paid by employees or directors together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

j) Net Income Per Share

Diluted net income per share is calculated using the treasury stock method, whereby it is assumed that proceeds from the exercise of in-the-money stock options plus the unamortized portion of stock-based compensation are used by the Company to repurchase Company shares at the weighted average market price during the year.

k) Revenue Recognition

Revenue from the sale of petroleum and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation, and production based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

l) Foreign Currency Translation

The Company follows the temporal method when translating foreign currency transactions and the financial statements of its integrated subsidiary.

Under this method, foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the balance sheet date for monetary items and at the transaction date for non-monetary items. Revenues and expenses, except depletion, depreciation and accretion, are translated at average exchange rates for the year. Depletion, depreciation and accretion are translated at the same rate as the related assets. Exchange gains or losses on translation of current and non-current monetary items are included in the determination of net income.

m) Joint Venture Accounting

Substantially all of the Company's exploration and production activities are conducted jointly with others, and accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

n) Measurement Uncertainty

The amounts recorded for depletion, depreciation and accretion, asset retirement obligations and the ceiling test are based on estimated proved reserves, production rates, future petroleum and natural gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates in future periods could be significant.

The amounts used to estimate fair values of stock options issued are based on estimates of future volatility of the Company's share price, expected lives of the options, expected dividends to be paid by the Company and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements of future periods could be significant.

3. Property and Equipment

	2006	2005
Petroleum and natural gas properties including exploration and development thereon	**$ 149,592,699**	$ 128,195,327
Production equipment and facilities	**54,190,215**	37,851,471
Other	**973,488**	907,947
	204,756,402	166,954,745
Accumulated depletion and depreciation	**77,330,851**	52,053,550
	$ 127,425,551	$ 114,901,195

During the year, the Company capitalized $1,468,683 (2005 - $1,489,120) in general and administrative expenses. No interest has been capitalized.

Costs of unproved petroleum and natural gas properties amounting to $22,054,459 (2005 - $20,584,330) have been excluded from the depletion calculation.

The Company prepared a ceiling test calculation at December 31, 2006 to assess the recoverability of its petroleum and natural gas properties. The ceiling test was based upon a valuation of the petroleum and natural gas properties prepared by an independent engineering firm based upon future oil and gas benchmark prices and adjusted for commodity price differentials specific to the Company. The following table summarizes the benchmark references prices used in the ceiling test calculation:

	WTI Oil *($US/bbl)*	Edmonton Light Sweet 40 API *($Cdn/bbl)*	AECO Natural Gas Spot Price *($Cdn/mmbtu)*
2007	$ 65.73	$ 74.10	$ 7.72
2008	68.82	77.62	8.59
2009	62.42	70.25	7.74
2010	58.37	65.56	7.55
2011	55.20	61.90	7.72
2012	56.31	63.15	7.85
2013	57.43	64.42	7.99
2014	58.58	65.72	8.12
2015	59.75	67.04	8.26
2016	60.95	68.39	8.40
2017	62.17	69.76	8.54

Prices increase at a rate of 2.00% thereafter.

4. Bank Debt

The Company has an uncommitted demand revolving credit facility to a maximum of $50,000,000. The facility is available to the Company by way of prime rate based loans, bankers acceptances and letters of credit. Interest is payable monthly at the bank's prime lending rate. The facility is secured by a general assignment of book debts, a $100,000,000 demand debenture with a floating charge over all assets with a Negative Pledge and Undertaking to provide fixed charges upon request. Under the terms of the agreement, the Company is required to meet certain financial and other reporting requirements and may not breach certain financial tests without prior consent of the bank.

The credit facility is subject to review on a semi-annual basis. The next review will be undertaken on or before May 31, 2007.

5. Asset Retirement Obligations

The following table summarizes changes in the asset retirement obligations for the years ended December 31, 2006 and 2005:

	2006	2005
Asset retirement obligations, beginning of year	$ 3,473,144	$ 2,671,657
Liabilities incurred	1,684,394	745,691
Liabilities settled	(126,137)	(160,441)
Liabilities acquired	–	69,369
Liabilities disposed	(131,438)	–
Accretion expense	204,337	146,868
Asset retirement obligations, end of year	$ 5,104,300	$ 3,473,144

The inflated, undiscounted amount of the estimated future cash flows required to settle the obligations is $9,809,550 (2005 - $6,921,310). These obligations are expected to be paid over the next several years with a weighted average life of approximately 11 years (2005 - 11 years). The estimated future cash flows have been discounted at the credit-adjusted risk-free rate of 6.00% (2005 – 5.25%). As at December 31, 2006 no funds have been set aside to settle these obligations.

6. Income Taxes

a) Future Income Tax Liability

Significant components of the future income tax liability are as follows:

	2006	2005
Temporary differences related to property and equipment and asset retirement obligations	$ 12,728,414	$ 12,441,035
Share issuance and financing costs	(233,014)	(425,714)
Temporary differences related to investments	(102,118)	(118,305)
	$ 12,393,282	$ 11,897,016

b) Income Taxes Expense

Income taxes expense differs from that which would be expected from applying the combined Canadian federal and provincial income tax rate of 35.00% (2005 - 39.10%) to income before income taxes. The difference results from the following:

	2006	2005
Expected tax provision	$ 1,250,260	$ 6,073,572
Increases (decreases) resulting from:		
Resource allowance	(1,052,048)	(2,507,882)
Non-deductible crown payments, net of Alberta Royalty Tax Credit	827,086	1,558,483
Change in tax rates	(1,057,731)	(422,640)
Large corporation and capital taxes	284,452	324,687
Non-deductible stock-based compensation	604,756	217,736
Other	(41,814)	87,039
	$ 814,961	$ 5,330,995

7. Share Capital

Authorized

Unlimited number of voting common shares

Unlimited number of non-voting preferred shares

Issued

	2006		2005	
	Number	**Stated Value**	Number	Stated Value
Common shares				
Balance, beginning of year	**38,830,799**	**$ 42,906,253**	38,471,234	$ 42,474,623
Stock options exercised for cash (Note 7[a])	**551,102**	**855,598**	546,167	452,058
Fair value of options exercised	**–**	**216,008**	–	51,717
Issued under employee share purchase plan (Note 7[b])	**41,529**	**216,198**	36,298	174,025
Normal Course Issuer Bids (Note 7[c])	**(612,300)**	**(678,697)**	(222,900)	(246,170)
Balance, end of year	**38,811,130**	**$ 43,515,360**	38,830,799	$ 42,906,253

a) Stock Option Plan

Under the Company's stock option plan, the Company may grant options to its directors, officers, employees, and consultants. The maximum number of shares which may be reserved for issuance under the plan is 5,000,000 common shares. The maximum number of shares which may be reserved for issuance to any one person under the plan is 5% of the issued common shares. The plan also provides that the price at which options may be granted cannot be less than the market price of the common shares at the time the option is granted. Options granted under the plan will have a term not exceeding ten years. The vesting period is set by the Board of Directors at the time the options are granted.

A summary of the status of the Company's stock option plan, as of December 31, 2006 and 2005 and changes during the years then ending are as follows:

	2006		2005	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	**2,604,667**	**$ 1.76**	2,995,000	$ 1.49
Granted	**1,240,000**	**5.60**	217,500	3.28
Exercised	**(551,102)**	**1.55**	(546,167)	0.84
Cancelled	**(66,665)**	**3.27**	(61,666)	(2.25)
Outstanding, end of year	**3,226,900**	**$ 3.24**	2,604,667	$ 1.76
Options exercisable at year-end	**2,001,896**	**$ 2.33**	1,805,226	$ 1.39

The following table summarizes the stock options outstanding at December 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options	Weighted Average Exercise Price
$0.45	217,500	$ 0.45	3.1	217,500	$ 0.45
$0.77	275,000	0.77	4.2	275,000	0.77
$1.18 to $1.53	499,400	1.36	1.2	499,400	1.36
$2.30 to $2.75	865,000	2.31	2.7	576,664	2.31
$3.98 to $4.90	330,000	4.57	4.2	86,666	4.14
$5.24 to $5.74	1,040,000	5.73	4.3	346,666	5.73
Total	3,226,900	$ 3.24	3.3	2,001,896	$ 2.33

b) Employee Share Purchase Plan

The Company maintains an employee share purchase plan (the "Plan"), whereby the Company is authorized to match employees' purchases under the Plan from a minimum of two percent to a maximum of five percent of the employees' regular gross earnings, through the issuance of common shares of the Company, for all full-time employees. Compensation expense is recognized when shares are issued under the Plan and an equal amount is recorded as share capital. Shares are issued from Treasury to employees at the weighted average market price for the month immediately preceding the date of purchase of the Company's shares. The maximum number of common shares which can be issued under the plan is 500,000, of which 222,698 have been issued to December 31, 2006. Compensation costs of $108,098 (2005 - $87,012) have been expensed as part of stock-based compensation.

c) Normal Course Issuer Bid

Pursuant to Normal Course Issuer Bids, the Company acquired 612,300 (2005 – 222,900) common shares at an average price of $5.22 (2005 - $5.21) per share. The excess of cost of reacquisition over stated value of $2,516,691 (2005 - $916,929) has been charged against retained earnings. At December 31, 2006, a maximum of 3,316,500 common shares may be acquired by the Company until October 1, 2007 under the present Normal Course Issuer Bid.

d) Stock-based Compensation Expense

The fair value of stock options granted during 2006 was estimated on the dates of grant using the Black-Scholes option-pricing method with the following assumptions:

Risk free interest rate of 3.79 to 4.26% (2005 - 3.12 to 3.48%)
Expected life of options of 3.5 to 4.5 years (2005 - 3.5 to 4.5 years)
Expected volatility of 81.24 to 87.52% (2005 - 67.47 to 70.69%)
Expected dividend rate of 0% (2005 - 0%)
Weighted average fair value per option granted of $3.54 (2005 - $2.25)

Compensation costs of $1,727,873 (2005 - $556,870) have been expensed resulting in the recognition of $1,727,873 (2005 - $556,870) of contributed surplus during 2006.

8. Net Income Per Share

Net income per share has been calculated based on the weighted average number of common shares outstanding during the year of 38,652,164 (2005 – 38,755,860).

A reconciliation of the denominators for the per share calculations is outlined below:

	2006	2005
Basic weighted average shares	**38,652,164**	38,755,860
Effect of dilutive stock options	**1,127,898**	1,789,440
Dilutive weighted average shares	**39,780,062**	40,545,300

The calculation of diluted net income per share does not include 1,165,000 (2005-Nil) stock options, as the inclusion of these options would have been anti-dilutive.

There is no change in the numerator in the calculation of diluted net income per share for either year.

9. Financial Instruments

a) Fair Values

The fair values of the Company's accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of these financial instruments. The fair value of investments at December 31, 2006 is $13,895,591 (2005 - $8,503,467).

The fair value of bank debt approximates its carrying value as it bears interest at market rates.

b) Credit Risk

The majority of the Company's accounts receivable are due from joint venture partners in the oil and gas industry and from purchasers of the Company's oil and natural gas production. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any credit loss in the collection of accounts receivable to date.

c) Interest Rate Risk

The Company is exposed to interest rate cash flow risk to the extent that its bank debt is at a floating rate of interest.

d) Commodity Price Risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management monitors commodity prices and initiates instruments to manage exposure to these risks when it deems appropriate. Currently, no such instruments have been initiated.

e) Currency Risk

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices are referenced to U.S. dollar denominated prices.

10. Commitments

The Company has obligations under operating leases for office space and transportation obligations as follows:

2007	$ 213,439
2008	170,648
2009	69,496
2010	69,496
2011	11,583

11. United States Accounting Principles and Reporting

The Company's consolidated financial statements have been prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which in most respects conform to accounting principles generally accepted in the United States ("U.S. GAAP"). Significant differences between Canadian and U.S. GAAP are described in this note:

a) Full Cost Accounting

In accordance with U.S. GAAP, a ceiling test is applied to ensure the unamortized capitalized costs in each cost centre do not exceed the sum of the present value, discounted at 10 percent, of the estimated unescalated future net operating revenue from proved reserves plus unimpaired unproved property costs less future development costs, related production costs, asset retirement obligations and applicable taxes. Under Canadian GAAP, a similar ceiling test calculation is performed with the exception that future revenues are undiscounted and use forecast pricing to determine whether an impairment exists and are on a before tax basis. Any impairment amount is measured using the fair value of proved and probable reserves.

Depletion under U.S. GAAP is calculated by reference to proved reserves estimated using constant prices and costs. Depletion under Canadian GAAP is calculated by reference to proved reserves estimated using future prices and costs.

In computing consolidated net income for U.S. GAAP purposes, the Company recorded additional depletion in prior years as a result of the application of the ceiling test. These charges were not required under the Canadian GAAP ceiling test. As a result, the depletion base of unamortized capitalized costs is less for U.S. GAAP purposes. No ceiling test write-down is required under Canadian GAAP or U.S. GAAP as at December 31, 2006 and 2005.

b) Income Taxes

Canadian GAAP previously required the Company to record potential future taxes using the deferral method. However, the Canadian Institute of Chartered Accountants' (CICA) accounting standard is now similar to U.S. GAAP.

Upon implementation of the new Canadian standard, retained earnings was decreased for temporary differences that had not previously been recognized. Under U.S. GAAP, these temporary differences would have already been reflected in property and equipment, therefore further differences in depletion and depreciation expense results in subsequent years.

Under U.S. GAAP, enacted tax rates are used to calculate future taxes, whereas under Canadian GAAP, substantively enacted tax rates are used.

c) Flow-through Shares

U.S. GAAP requires the stated capital on flow-through share issuances to be equal to the estimated fair market value of the shares on the date of issue. The difference between the gross proceeds received on the issuance of the shares and the estimated fair market value of the shares is recorded as a liability ("the Premium"). Under Canadian GAAP, the gross proceeds received on flow-through share issuances are initially recorded as share capital. The Premium recorded as a current liability under U.S. GAAP for 2006 is $Nil (2005 - $Nil).

When the tax deductions are renounced to subscribers, Canadian GAAP requires that the stated capital be reduced by and a future tax liability be recorded for the estimated future income taxes payable as a result of the renouncement. Under U.S. GAAP, when the expenditures are incurred the future tax liability is recorded through a charge to income tax expense less the reversal of the Premium previously reported.

d) Investments

Under U.S. GAAP, the Company must classify investments in equity securities that have readily determinable fair values as either available for sale or held for trading. The Company's investments are classified as available for sale as they were not acquired and are not held principally for the purposes of selling them in the near term. These available for sale investments are revalued at the end of each period based on their fair values and any unrealized gain or loss is recorded, net of tax effects, as a component of other comprehensive income in the period.

Additionally, U.S. GAAP requires the disclosure, as other comprehensive income, of changes in equity during the period from transactions and other events from non-owner sources. Canadian GAAP does not require similar disclosure. Comprehensive income for U.S. purposes arose on valuing the Company's investments at their fair market value.

e) Variable Interest Entities

The CICA issued a standard effective for all periods beginning on or after November 1, 2004. This standard requires variable interest entities to be consolidated by their primary beneficiary which is similar to the U.S. Financial Accounting Standards Board's (FASB) Interpretation No. 46 "Consolidation of Variable Interest Entities."

At December 31, 2006, the Company did not have any interests in variable interest entities.

f) Share-based Payments

Under Canadian GAAP, compensation costs have been recognized in the consolidated financial statements based on the fair value of stock options granted to employees, officers and directors which follows similar recommendations under FASB Statement of Financial Accounting Standards (FAS) 123(R). Under FAS 123(R), entities are required to use the grant-date fair value of the award in measuring the cost of employee services received in exchange for an equity award of equity instruments. Compensation costs are required to be recognized over the requisite service period. Forfeitures must be estimated.

For liability awards, entities are required to re-measure the fair value of the award at each reporting date up until the settlement date. Changes in fair value of liability awards during the requisite service period are required to be recognized as compensation costs over the vesting period. Compensation costs are not recognized for equity instruments for which employees do not render the requisite service.

The Company elected to apply the modified prospective application in adopting FAS 123(R) on January 1, 2006. Under the modified prospective application, FAS 123(R) applies to new awards and to awards modified, repurchased or cancelled after January 1, 2006. The adoption of FAS 123(R) did not result in restatement of prior periods.

g) Consolidated Statement of Cash Flows

Under U.S. GAAP, separate subtotals within cash flow from operating activities are not presented.

h) Consolidated Statement of Income

The Company presents the gross amount of petroleum and natural gas sales and the gross amount of royalty expenses. Under U.S. GAAP, these items are combined and presented on a net basis.

i) Recent Accounting Pronouncements

i) Accounting Changes and Error Corrections

Effective January 1, 2006 the Company adopted, for U.S. GAAP purposes, FAS 154 "Accounting Changes and Error Corrections, a replacement of Accounting Principles Board Opinion No. 20 and FAS 3". FAS 154 requires retrospective application of changes in accounting principle to prior period financial statements, unless it is impracticable to do so. Previously, Opinion 20 required that voluntary changes in accounting principles be recognized by including the cumulative effect of the new accounting principle in net income of the period of the change. This standard did not have an impact on the consolidated financial statements.

ii) Uncertain Tax Positions

As of January 1, 2007, the Company will be required to adopt, for U.S. GAAP purposes, FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" which specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements and requires certain disclosures of uncertain tax matters. The Company is currently assessing the impact of this interpretation.

iii) Fair Value Measurements

As of January 1, 2008, the Company is required to adopt, for U.S. GAAP purposes, FAS 157 "Fair Value Measurements". FAS 157 defines fair value, establishes a framework in measuring fair value and provides disclosure guidance. This statement is intended to increase the consistency and comparability of fair value measurements and eliminate different definitions of fair value under various U.S. standards. The Company is currently assessing the impact of this standard.

iv) Financial Instruments

On January 1, 2007, the Company is required to adopt, for Canadian GAAP purposes, CICA Handbook Section 3855, "Financial Instruments—Recognition and Measurement". This Section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. The Company is assessing the impact of this new standard on its consolidated financial statements.

v) Hedges

On January 1, 2007, the Company is required to adopt, for Canadian GAAP purposes, CICA Handbook Section 3865, "Hedges". This Section provides guidance on how to designate qualifying transactions as hedges for accounting purposes by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company is assessing the impact of this new standard on its consolidated financial statements.

vi) Comprehensive Income

On January 1, 2007, the Company is required to adopt, for Canadian GAAP purposes, CICA Handbook Section 1530, "Comprehensive Income". This Section introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income (similar to U.S. standards). The Company is assessing the impact of this new standard on its consolidated financial statements.

j) Summary of Significant Differences Between U.S. GAAP and Canadian GAAP

i) Reconciliation of Consolidated Net Income Under Canadian GAAP to U.S. GAAP

	2006	2005
Net income under Canadian GAAP	**$ 2,757,210**	$10,202,438
U.S. GAAP adjustments		
Depletion, depreciation and accretion	**266,454**	286,161
Future tax expense on flow-through share renouncements	**–**	(73,024)
Future income taxes	**(133,247)**	(529,616)
Net income under U.S. GAAP	**$ 2,890,417**	$ 9,885,959
Net income per share		
Basic	**$ 0.07**	$ 0.26
Diluted	**$ 0.07**	$ 0.24

ii) Statements of Comprehensive Income

	2006	2005
Net income under U.S. GAAP	$ 2,890,417	$ 9,885,959
Unrealized gain (loss) on investments, net of tax effect of $(690,146) (2005 - $(36,333))	4,599,853	(172,359)
Comprehensive income	$ 7,490,270	$ 9,713,600

iii) Condensed Consolidated Balance Sheets

	2006		2005	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Current assets	$ 12,590,893	$ 12,590,893	$ 15,458,139	$ 15,458,139
Investments	1,809,583	13,895,591	1,707,458	8,503,467
Property and equipment	127,425,551	126,253,266	114,901,195	113,462,456
	$141,826,027	$152,739,750	$132,066,792	$137,424,062
Current liabilities	$ 59,902,890	$ 59,902,890	$ 54,632,568	$ 54,632,568
Asset retirement obligations	5,104,300	5,104,300	3,473,144	3,473,144
Future income taxes	12,393,282	13,950,922	11,897,016	12,631,263
	77,400,472	78,958,112	70,002,728	70,736,975
Share capital	43,515,360	45,394,825	42,906,253	44,785,718
Contributed surplus	2,335,783	2,335,783	823,918	823,918
Retained earnings	18,574,412	15,838,353	18,333,893	15,464,627
Accumulated other comprehensive income	–	10,212,677	–	5,612,824
	64,425,555	73,781,638	62,064,064	66,687,087
	$141,826,027	$152,739,750	$132,066,792	$137,424,062

iv) Non-cash Working Capital Under U.S. GAAP

	2006	2005
Cash provided by (used for)		
Accounts receivable	$ 2,826,962	$ (2,010,806)
Prepaid expenses	45,600	669,027
Accounts payable and accrued liabilities	(1,321,132)	3,549,166
Income taxes	(8,546)	253,339
Changes in non-cash working capital	$ 1,542,884	$ 2,460,726

Annual General and Special Meeting

Glen Room 202, at the Telus Convention Centre, 120 – 9th Avenue S.E., Calgary, Alberta, on Thursday, May 17, 2007 at 10:30 a.m.

Abbreviations

/d	per day
bbls	barrels
bcf	billion cubic feet
boe	barrel of oil equivalent
liquids	natural gas liquids
mbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mmbtu	million British thermal units
mmcf	million cubic feet

Directors

Hugh G. Ross
President and Chief Executive Officer
Gentry Resources Ltd.
Calgary, Alberta

Michael Halvorson
President, Halcorp Capital Ltd.
Edmonton, Alberta

A. Bruce Macdonald
Chairman, Jayhawk Resources Ltd.
Calgary, Alberta

Walter O'Donoghue
Counsel to Bennett Jones LLP
Calgary, Alberta

Dean G. Prodan
President
UTA Asset Management Corp.
Calgary, Alberta

Officers

Hugh G. Ross
President and Chief Executive Officer

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